

CITY OF GLADSTONE, MICHIGAN

BASIC FINANCIAL STATEMENTS

MARCH 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

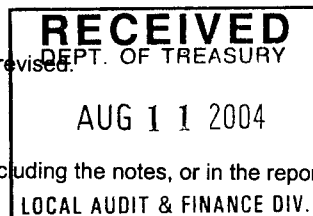
Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Gladstone	County Delta
Audit Date 3/31/04	Opinion Date 6/10/04	Date Accountant Report Submitted to State: 8/10/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

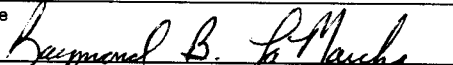
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 901 Ludington Street		City EsCANABA	State MI
Accountant Signature 		ZIP 49829	Date 8/10/04

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Commission
City of Gladstone
Gladstone, Michigan 49837

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan as of and for the year ended March 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gladstone, Michigan, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan as of March 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2004, on our consideration of the City of Gladstone, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3, 62, 63 and 64, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Michigan basic financial statements. The combining nonmajor fund financial statements and the statistical table are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical table has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

June 10, 2004

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Gladstone's financial performance provides an overview of the City's financial activities for the fiscal year ending March 31, 2004. Please read it in conjunction with the City's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City's net assets were reported at \$15,509,252. This is a decrease of \$208,064 from March 31, 2003. This resulted from a decrease in total assets of \$679,525 (or 3.45%) and a decrease in liabilities of \$471,461 (12%). The decline in net assets resulted primarily from a decrease in notes receivable of \$113,049. Net assets for our business-type activities were \$9,688,044, a decrease of \$19,200 from 2003, while net assets in our governmental activities were \$5,821,208, a decrease of \$188,864. These declines represent the impact of a sluggish economy, which resulted in the loss of two companies in the City. One of the companies had loans from the City's Revolving Loan Fund, which ultimately proved to be uncollectable and were written off.
- The City's expenses for the year totaled \$7,346,669 an increase of \$43,111 (.59%) over 2003. Revenues from all sources were \$7,138,605, a decrease of \$127,680 (1.75%) from 2003. Sales in the Water and Wastewater Utilities grew by 1.64% and 6.0% respectively. Sales of Electricity actually declined very slightly (.03%) for the first time in memory. This reflects the loss of industrial loads from Lakeside Machine and Partek Forrest Products.
- In the City's business type activities, total revenues were \$3,633,571 a decrease of .4% over the previous year. Business-type activity revenues declined slightly as a percentage of total revenues to 50% from 53% the previous year. This was primarily the result of continued growth in real estate taxes (\$105,434 or 7.09%) compared to the small decrease in business type revenues.
- The wireless broadband service was rolled out in October 2003. While not yet cash flow positive, the service over time should prove to be an asset to the community. All City departments are now connected to high-speed Internet services. Many reports and forms are now transmitted through the Internet. The service has also allowed the City to avoid the cost of dedicated phone lines for some utility functions.
- The General Fund finished the year with a break even fund balance. This was after revenues of \$2,578,898 compared to \$2,452,473 in 2003, and expenditures of \$2,699,114 compared to expenses of \$2,649,401 in 2003. The decline in net assets for the governmental activities decreased from a decline of \$361,429 in 2003 to a decline of \$188,864 in 2004.

USING THIS REPORT

This annual report consist of financial statements. The Statement of Net Assets and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer term view of the City's finances. Fund financial statement start on page 17.

For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

Reporting the City as a whole

Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about a city's finances in "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current years revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets- the difference between assets and liabilities- as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation and general administration. Property taxes, state shared revenues and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Electrical Departments, Land Development Fund and Economic Development Corporation are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's Major Funds begins on page 10. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that the Commission is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and

Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other City programs and activities – such as the Equipment Fund.

The City as a Trustee

The City is the trustee, *or fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 29. We exclude these funds from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The City as a Whole

The City's net combined assets declined by \$272,778.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities	
	2003	2004	2003	2004
Current and other assets	\$ 1,141,032	\$ 1,006,110	\$ 3,486,081	\$ 2,955,765
Capital assets (net)	7,474,352	7,146,730	7,601,568	7,914,903
Total Assets	<u>8,615,384</u>	<u>8,152,840</u>	<u>11,087,649</u>	<u>10,870,668</u>
Long-term debt outstanding	2,160,153	1,945,125	985,065	790,772
Other liabilities	445,159	386,507	395,340	391,852
Total Liabilities	<u>2,605,312</u>	<u>2,331,632</u>	<u>1,380,405</u>	<u>1,182,624</u>
Net Assets:				
Invested in capital assets, net of related debt	5,314,199	5,297,015	6,129,151	6,763,403
Restricted assets:				
Expendable	-	-	181,620	17,543
Nonexpendable	217,929	219,188	-	-
Unrestricted	477,944	305,005	3,396,473	2,842,384
Total net assets	<u>\$ 6,010,072</u>	<u>\$ 5,821,208</u>	<u>\$ 9,707,244</u>	<u>\$ 9,623,330</u>

Net assets of the City's governmental activities stood at \$5,821,208, down from \$6,010,072 in 2003 (-3.14%). Total assets declined by just over 5%, but total liabilities declined by nearly 11%. The ratio of assets to liabilities rose from 3.31 in 2003 to 3.50 in 2004. This was the result of a decline in long term debt of over \$215,000 and a decrease of over \$58,000 in other liabilities. In summary, the City paid down liabilities at a faster rate than they accumulated new debt.

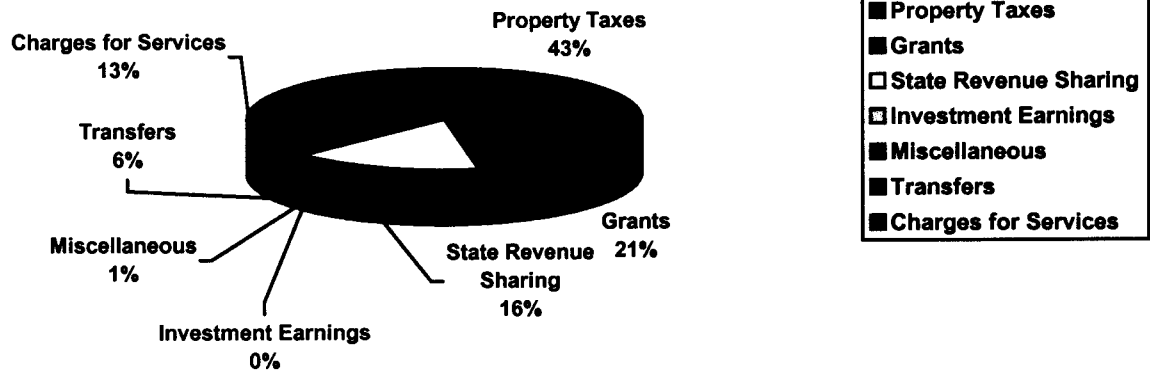
Net assets in our business type activities stood at \$9,623,330, down from \$9,707,244 in 2003 (-.86%). Total assets declined to 10,870,668 from \$11,087,649 in 2003, while liabilities declined from \$1,380,405 in 2003 to \$1,182,624 in 2004 (-14.33%). Unrestricted net assets declined from \$ 3,396,473 to \$ 2,842,384, while the amount invested in capital assets (net of related debt) rose from \$6,129,151 in 2003 to \$ 6,763,403 in 2004. In summary, the net assets of the business lines became a little less liquid, but investments in infrastructure will pay dividends in the future.

Table 2
Changes in Net Assets

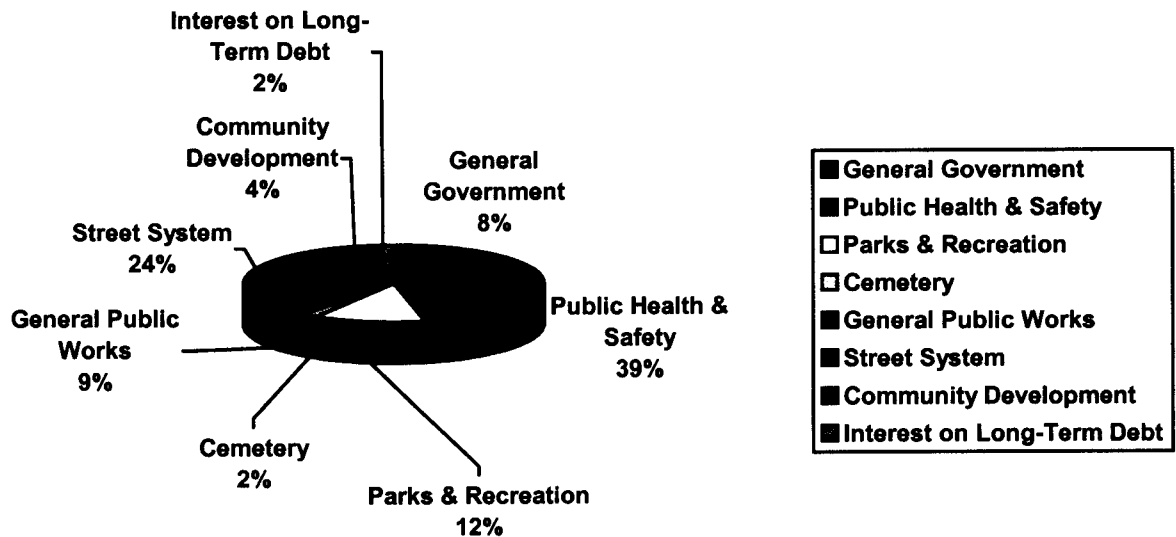
	Governmental Activities		Business-Type Activities	
	2003	2004	2003	2004
Revenues:				
Program Revenues:				
Charges for services	\$ 546,301	\$ 482,759	\$ 3,542,492	\$ 3,527,687
Operating grants	608,372	533,971	-	-
Capital grants	112,744	262,401	228,801	63,648
General Revenues:				
Property taxes	1,486,248	1,591,682	-	-
State revenue sharing	606,142	584,227	-	-
Unrestricted grants	5,403	5,148	-	-
Unrestricted investment earnings	7,197	7,361	64,465	42,236
Miscellaneous	54,545	36,108	-	-
Total Revenues	<u>3,426,952</u>	<u>3,503,657</u>	<u>3,835,758</u>	<u>3,633,571</u>
Program Expenses:				
General government	492,173	333,253	-	-
Public health & safety	1,395,292	1,501,009	-	-
Parks & recreation	454,550	468,427	-	-
Cemetery	69,067	74,538	-	-
General public works	416,222	368,803	-	-
Street system	942,841	950,520	-	-
Community development	85,086	147,905	-	-
Interest on long-term debt	92,346	88,701	-	-
Electric	-	-	2,204,439	2,247,968
Wastewater	-	-	538,884	575,343
Water	-	-	498,844	525,572
Land development	-	-	36,284	25,034
Economic development	-	-	77,530	39,596
Total Expenses	<u>3,947,577</u>	<u>3,933,156</u>	<u>3,355,981</u>	<u>3,413,513</u>
Excess (deficiency) before transfers and contributions	(520,625)	(429,499)	479,777	220,058
Transfers	155,621	\$ 239,258	\$ (155,621)	\$ (239,258)
Contributions to permanent fund	<u>3,575</u>	<u>1,377</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(361,429)	(188,864)	324,156	(19,200)
Net assets - beginning	5,964,260	6,010,072	9,278,548	9,707,244
Prior period adjustment	<u>407,241</u>	<u>-</u>	<u>104,540</u>	<u>-</u>
Net assets - ending	<u>\$ 6,010,072</u>	<u>\$ 5,821,208</u>	<u>\$ 9,707,244</u>	<u>\$ 9,688,044</u>

Governmental Activities

2004 Governmental Activities Revenue



2004 Governmental Program Expenses



The City's total revenues were \$7,138,605, up from \$7,266,285 in 2003 (a decrease of 1.75%). The cost of all programs and services was \$7,346,669, up from \$7,303,558 in 2003 (an increase of .59%). For 2004, the difference between revenue and expenses was (\$208,064) versus a deficit of (\$37,273) in 2003. Since expenses include non-cash charges such as depreciation, the deficit is not alarming. The deficit was no doubt the result of a slow economy and decreasing utility sales as a result of a slow down.

Governmental Activities

Revenues for the City's governmental activities totaled \$3,505,034, up 2.17% from \$3,430,527 in 2003. The increase was highlighted by increase in grants of 10.43% (\$75,256), a decrease in State shared revenues of 3.62% (\$21,915), and an increase of 7.09% (\$105,434) in real estate taxes. Expenses declined by .37% (\$14,421), with the largest percentage decrease (32.29%) in general government.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

Table 3
Government Activities

	Total Cost of Services		Net Cost of Services	
	2003	2004	2003	2004
Public health & safety	\$ 1,395,292	\$ 1,501,009	\$ 1,072,992	\$ 1,091,610
Street systems	942,841	950,520	489,806	466,009
Parks & recreation	454,550	468,427	201,744	235,457
General public works	416,222	368,803	295,676	248,925
General government	492,173	333,253	492,173	333,253
Totals	<u>\$ 3,701,078</u>	<u>\$ 3,622,012</u>	<u>\$ 2,552,391</u>	<u>\$ 2,375,254</u>

Costs of services declined by about 7% as a result of tighter budget controls. There were a couple factors that mitigated against attempts to control costs. In Public Safety, double digit increases in health insurance costs ran up personnel costs. In the Major and Local Street Funds, four consecutive weekend snow storms in March of 2003 ran up snow removal costs at a time when it was too late to make budget adjustments to accommodate the extra costs. In the future, we will allow these funds to build up surpluses to handle these late spring storms.

Business-Type Activities

Revenues for the City's business-type activities totaled \$3,633,571, down from \$3,835,758 in 2003 (-5.27%). This comparison is skewed by the transfer of \$156,00 in real estate in 2003 to the Land Development Fund. When this one-time transfer is removed, the decline is reduced to 1.2%, in line with the slow economy.

THE CITY'S FUNDS

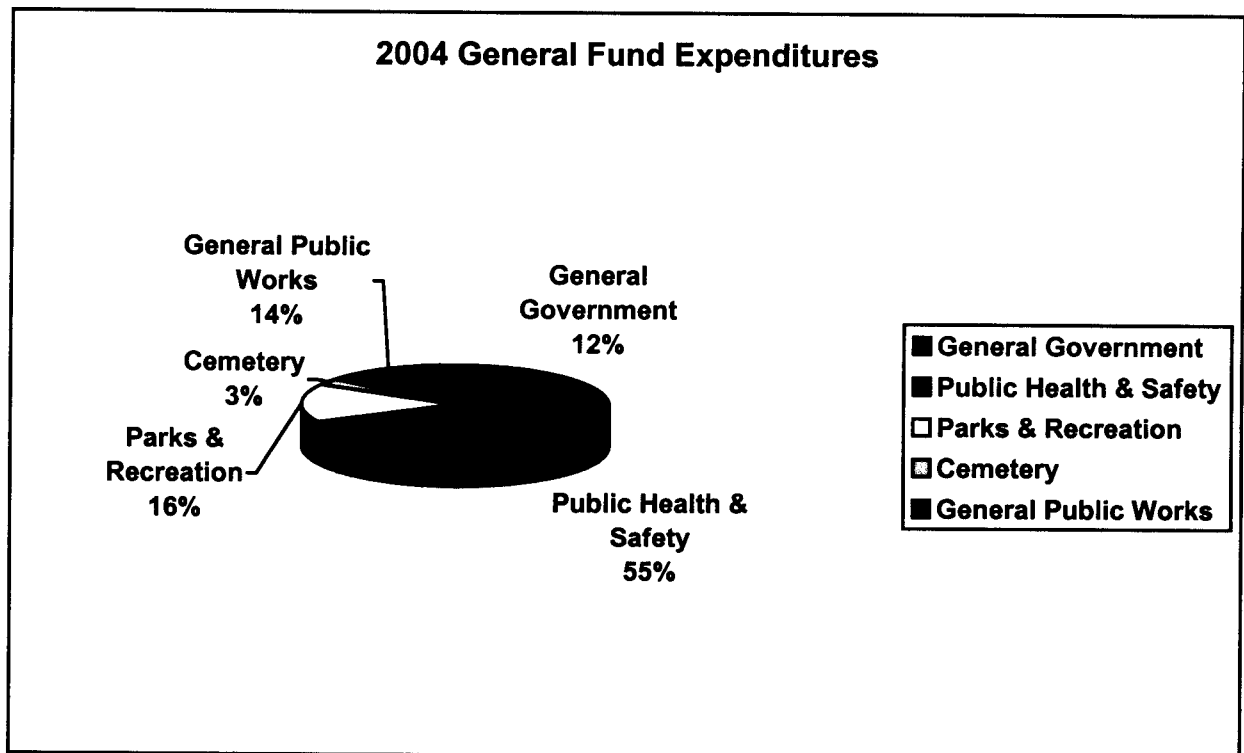
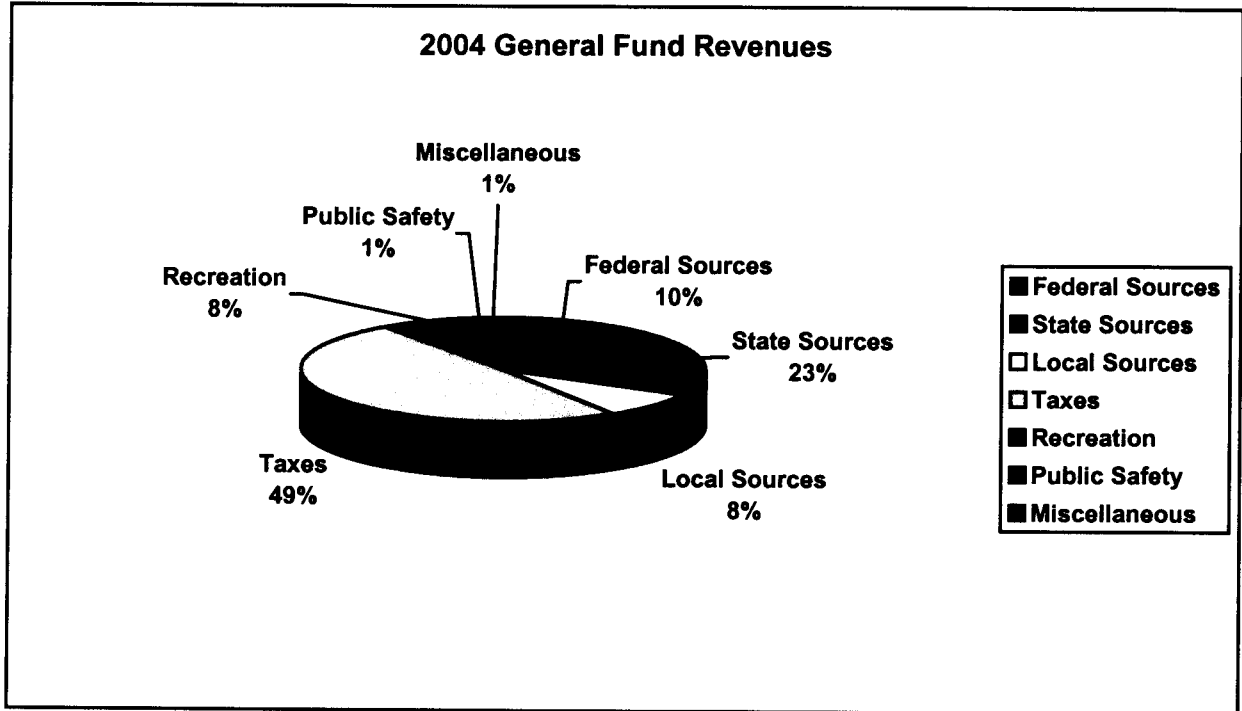
As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$591,341, an increase of \$83,506 from 2003. This was due primarily to a decrease in assets of \$111,643 (caused by bad loans written off), offset by a decrease in liabilities of \$195,149.

General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenses. As usual, revenue figures were easiest to project, with the final revenue number of \$2,578,898 just 5.53% over amended budget. Expenses were a little harder to predict, given variables such as winter weather, volume of trash to be landfilled, and costs for health insurance. The final expense number of \$2,699,114, was over the revised expense estimate of \$2,685,807, but very close to the original expense number of \$2,691,408. Over the next year, we will build up fund balances in the General Fund and the Major and Local Street Funds to absorb overruns in the future.

The final revenue number was \$126,425 (5.16%) more than 2003, and expenses were \$49,713 (1.88%) higher than 2003. On the revenue side, the General Fund was hit by a significant cut in State revenues from all sources (\$70,308). This was offset however, by an increase in tax revenues of \$75,754, and an increase of \$18,695 in miscellaneous income. On the expense side, winter maintenance costs for the Major and Local Street funds had to be subsidized by the Electric Fund due to two factors. First, the proposed purchase of \$26,000 of rock from our quarry was deferred to 2005, shorting the Major Street Fund by that amount. When this sale occurs in 2005, a total of \$60,000 will be received. \$45,000 of this will be transferred back to the Electric Fund, leaving \$15,000 to help augment the Major Street Fund balance. The other factor that caused cost overruns was four straight weekend snow storms which required extensive overtime for winter maintenance. To avoid a similar problem in the future, higher fund balances will be maintained in the Major and Local Street funds, and in the General Fund when possible. This will become easier to do as the economy improves.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the City had \$15,061,633, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was up from \$15,075,920 in 2003. (See table 4 below)

Table 4
Capital Assets at Year-End
(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities	
	2003	2004	2003	2004
Land	\$ 1,543,198	\$ 1,601,627	\$ 411,336	\$ 411,336
Land Improvements	107,301	95,680	-	-
Buildings	1,669,062	1,612,274	118,589	172,386
Machinery & Equipment	1,017,030	1,025,630	302,588	333,298
Infrastructure - Road System	3,036,722	2,710,648	-	-
Infrastructure - Other	101,039	100,871	-	-
Distribution/Collection System	-	-	6,769,055	6,997,883
Total	<u>\$ 7,474,352</u>	<u>\$ 7,146,730</u>	<u>\$ 7,601,568</u>	<u>\$ 7,914,903</u>

The most significant change in capital assets was the addition of \$228,828 in the Distribution and Collection category.

DEBT

At year-end the City had \$2,735,897 in bonds and notes outstanding. This is a decrease of \$409,321 (13.01%) in total long-term debt. Notable in the reduction of long-term debt was the refinancing of over \$800,000 in bonds for the Water and Wastewater Departments to take advantage of lower interest rates. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt of \$470,897 is well below the 10% limit of \$7,748,779.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2003	2004	2003	2004	2003	2004
General obligation bonds/ notes(backed by the City)	\$ 530,153	440,125	\$ 35,065	30,772	\$ 565,218	\$ 470,897
Revenue bonds and notes (backed by specific tax and fee revenues)	1,630,000	1,505,000	950,000	760,000	2,580,000	2,265,000
Totals	<u>\$ 2,160,153</u>	<u>\$ 1,945,125</u>	<u>\$ 985,065</u>	<u>\$ 790,772</u>	<u>\$ 3,145,218</u>	<u>\$ 2,735,897</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for business type activities. One of those factors is the economy. While it seems apparent that an economic recovery is underway and accelerating, it may take years to replace some of the economic vigor that was lost during the recent recession. During this period however, Gladstone has experienced growth in commercial development. This development will allow the continued growth in service type jobs, but some of these will be at higher wages than in the past. Further, development is now focusing on Gladstone's waterfront north of town which previously has had little development. This growth will not effect revenues for the next year however, so it seems likely that revenues will increase only marginally.

The cost of living in Gladstone is below the national and State average, but real estate values continue to climb. The growth of other costs continue to rise at the national inflation rate or lower. These factors were taken into account when adopting the 2004 budget. Amounts available for appropriation were \$2.578 million, marginally up from the \$2.4 million in 2003. The increase is tied to rising commercial development, continued residential expansion, and limited industrial expansion. However, the specter of continued decreases in State shared revenues still exists, and cost control will remain a priority. Significant cost cuts in health insurance expenses for the supervisory group will help with cost containment.

For our business type activities, continued slow growth is forecast in water and wastewater and electric. Average growth in energy sales had averaged more than 5% per year. Due to the loss of two manufacturing facilities, electric sales remain flat. Meanwhile, the deployment of our wireless broadband system has taken place, and customer interest remains high. Prices on broadband equipment have dropped and customer interest in high-speed internet service remains high. We also have applied for and will receive in the next fiscal year at least two grants to help finance further deployment of this service.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Gladstone City Hall, 1100 Delta Ave, P.O. Box 32, Gladstone, Michigan, 49837.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET ASSETS
March 31, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 251,187	\$ 1,100,682	\$ 1,351,869
Receivables :			
Accounts	1,569	49,295	50,864
Utilities	22,984	634,192	657,176
Special assessments	-	1,305	1,305
Delinquent special assessments	17,163	-	17,163
Notes	39,872	21,958	61,830
Interest	1,045	1,784	2,829
Miscellaneous	34,202	7,866	42,068
Due from other governmental units	325,163	-	325,163
Prepaid expense	-	19,650	19,650
Inventory	20,742	410,949	431,691
Total current assets	<u>713,927</u>	<u>2,247,681</u>	<u>2,961,608</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	218,762	-	218,762
Investments	-	159,808	159,808
Notes receivable	266,935	309,698	576,633
Internal balances	(193,514)	193,514	-
Bond issuance costs	-	45,064	45,064
Capital assets	16,688,700	15,142,921	31,831,621
Accumulated depreciation	(9,541,970)	(7,228,018)	(16,769,988)
Total noncurrent assets	<u>7,438,913</u>	<u>8,622,987</u>	<u>16,061,900</u>
Total assets	<u>\$ 8,152,840</u>	<u>\$ 10,870,668</u>	<u>\$ 19,023,508</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 90,247	\$ 224,258	\$ 314,505
Accrued payroll	57,648	32,510	90,158
Accrued interest	37,616	10,525	48,141
Due to other governmental units	32,125	-	32,125
Customer deposits	-	58,455	58,455
Other liabilities	3,240	-	3,240
Compensated absences	41,408	16,527	57,935
Bonds payable	130,000	130,000	260,000
Notes payable	149,245	4,538	153,783
Total current liabilities	<u>541,529</u>	<u>476,813</u>	<u>1,018,342</u>
Noncurrent liabilities:			
Compensated absences	124,223	49,577	173,800
Bonds payable	1,375,000	630,000	2,005,000
Notes payable	290,880	26,234	317,114
Total noncurrent liabilities	<u>1,790,103</u>	<u>705,811</u>	<u>2,495,914</u>
Total liabilities	<u>\$ 2,331,632</u>	<u>\$ 1,182,624</u>	<u>\$ 3,514,256</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 5,297,015	\$ 6,763,403	\$ 12,060,418
Restricted for:			
Expendable:			
Debt covenants	-	17,543	17,543
Nonexpendable:			
Cemetery perpetual care	219,188	-	219,188
Unrestricted	<u>305,005</u>	<u>2,907,098</u>	<u>3,212,103</u>
Total net assets	<u>\$ 5,821,208</u>	<u>\$ 9,688,044</u>	<u>\$ 15,509,252</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2004

Functions/Programs Primary government:	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services		Primary Government		
		Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 333,253	\$ -	\$ -	\$ (333,253)	\$ -	\$ (333,253)
Public health and safety	1,501,009	105,854	256,506	(1,091,610)	-	(1,091,610)
Parks and recreation	468,427	227,075	5,895	(235,457)	-	(235,457)
Cemetery	74,538	18,813	-	(51,492)	-	(51,492)
General public works	368,803	119,878	-	(248,925)	-	(248,925)
Street system	950,520	1,812	-	(466,009)	-	(466,009)
Community development	147,905	9,327	-	(138,578)	-	(138,578)
Interest on long-term debt	88,701	-	-	(88,701)	-	(88,701)
Total governmental activities	3,933,156	482,759	262,401	(2,654,025)	-	(2,654,025)
Business-type activities:						
Electric utility	2,247,968	2,503,968	12,597	-	268,597	268,597
Waste water utility	575,343	493,509	45,185	-	(36,649)	(36,649)
Water utility	525,572	489,167	5,866	-	(30,539)	(30,539)
Land development	25,034	35,013	-	-	9,979	9,979
Economic development	39,596	6,030	-	-	(33,566)	(33,566)
Total business-type activities	3,413,513	3,527,687	63,648	-	177,822	177,822
Total primary government	\$ 7,346,669	\$ 4,010,446	\$ 326,049	(2,654,025)	177,822	(2,476,203)
General revenues:						
Property taxes				1,591,682	-	1,591,682
State revenue sharing				584,227	-	584,227
Grants and contributions not restricted to specific programs				5,148	-	5,148
Contributions to permanent fund				1,377	-	1,377
Unrestricted investment earnings				7,361	42,236	49,597
Miscellaneous				36,108	-	36,108
Transfers				239,258	(239,258)	-
Total general revenues and transfers				2,465,161	(197,022)	2,268,139
Changes in net assets				(188,864)	(19,200)	(208,064)
Net assets - beginning				6,010,072	9,707,244	15,717,316
Net assets - ending				\$ 5,821,208	\$ 9,688,044	\$ 15,509,252

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2004

	<u>General</u>	<u>Major Street</u>	<u>Revolving Loan</u>
ASSETS			
Cash and equivalents:			
Restricted	\$ -	\$ -	\$ -
Unrestricted	81,066	(48,654)	184,809
Receivables:			
Accounts	520	1,049	-
Utilities	22,984	-	-
Delinquent special assessments	17,163	-	-
Notes	-	-	306,807
Interest	-	-	348
Miscellaneous	32,899	-	-
Due from other funds	44,213	869	-
Due from other governmental units	139,427	79,746	-
Inventory	2,235	18,507	-
	<u>\$ 340,507</u>	<u>\$ 51,517</u>	<u>\$ 491,964</u>
Total assets			
	<u>\$ 340,507</u>	<u>\$ 51,517</u>	<u>\$ 491,964</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 79,349	\$ 508	\$ -
Accrued payroll	46,436	4,996	-
Due to other funds	173,812	46,013	-
Due to other governmental units	-	-	-
Deferred revenue	37,670	-	306,806
Other liabilities	3,240	-	-
	<u>340,507</u>	<u>51,517</u>	<u>306,806</u>
Total liabilities			
	<u>340,507</u>	<u>51,517</u>	<u>306,806</u>
Fund balances:			
Reserved for:			
Inventory	2,235	18,507	-
Cemetery perpetual care	-	-	-
Unreserved	(2,235)	(18,507)	185,158
Unreserved, reported in non-major:			
Special revenue funds	-	-	-
Debt service funds	-	-	-
	<u>-</u>	<u>-</u>	<u>185,158</u>
Total fund balances			
	<u>-</u>	<u>-</u>	<u>185,158</u>
Total liabilities and fund balances			
	<u>\$ 340,507</u>	<u>\$ 51,517</u>	<u>\$ 491,964</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 218,762	\$ 218,762
151,819	369,040
-	1,569
-	22,984
-	17,163
-	306,807
697	1,045
886	33,785
621	45,703
105,990	325,163
-	20,742
<u>\$ 478,775</u>	<u>\$ 1,362,763</u>
\$ 536	\$ 80,393
4,219	55,651
19,889	239,714
32,125	32,125
15,823	360,299
-	3,240
<u>72,592</u>	<u>771,422</u>
-	20,742
219,188	219,188
-	164,416
186,184	186,184
811	811
<u>406,183</u>	<u>591,341</u>
<u>\$ 478,775</u>	<u>\$ 1,362,763</u>

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2004

Total fund balances for governmental funds	\$ 591,341
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 1,601,627	
Land improvements	119,600	
Buildings	2,476,717	
Machinery and equipment	975,198	
Infrastructure - road system	9,591,090	
Infrastructure - other	108,352	
Accumulated depreciation	<u>(8,470,402)</u>	
Total capital assets		6,402,182

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

297,885

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (37,616)	
Bonds payable	(1,505,000)	
Notes payable	(122,252)	
Compensated absences	<u>(165,631)</u>	(1,830,499)

Deferred revenue reported as a liability on the balance sheet of the fund financial statements and have been recognized as revenue in the statement of activities have been removed from the statement of net assets.

360,299

Total net assets of governmental activities	<u><u>\$ 5,821,208</u></u>
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See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2004

	General Fund	Major Street	Revolving Loan
REVENUES:			
Federal sources	\$ 250,857	\$ -	\$ -
State sources	591,555	331,078	-
Local sources	208,992	736	-
Taxes	1,271,628	-	-
Recreation	198,725	-	-
Public safety	20,456	-	-
Loan repayment	-	-	31,597
Lease income	-	-	-
Interest income	1,275	22	12,484
Miscellaneous	35,410	7,518	-
	<u>\$ 2,578,898</u>	<u>\$ 339,354</u>	<u>\$ 44,081</u>
Total revenues			
EXPENDITURES:			
General government	\$ 336,234	\$ -	\$ -
Public health and safety	1,483,878	-	-
Parks and recreation	418,642	-	-
Cemetery	76,852	-	-
General public works	383,508	-	-
Street system	-	433,116	-
Community development	-	-	1,021
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
	<u>2,699,114</u>	<u>433,116</u>	<u>1,021</u>
Total expenditures			
Excess revenues (expenditures)	<u>(120,216)</u>	<u>(93,762)</u>	<u>43,060</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	120,216	85,181	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>120,216</u>	<u>85,181</u>	<u>-</u>
Net changes in fund balances	-	(8,581)	43,060
Fund balances - beginning	<u>-</u>	<u>8,581</u>	<u>142,098</u>
Fund balances - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 185,158</u></u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 250,857
144,103	1,066,736
-	209,728
338,778	1,610,406
-	198,725
-	20,456
-	31,597
99,850	99,850
7,140	20,921
3,151	46,079
<u>\$ 593,022</u>	<u>\$ 3,555,355</u>
\$ -	\$ 336,234
-	1,483,878
-	418,642
255	77,107
-	383,508
223,459	656,575
137,674	138,695
125,000	125,000
91,468	91,468
<u>577,856</u>	<u>3,711,107</u>
<u>15,166</u>	<u>(155,752)</u>
199,510	404,907
(165,649)	(165,649)
<u>33,861</u>	<u>239,258</u>
49,027	83,506
<u>357,156</u>	<u>507,835</u>
<u>\$ 406,183</u>	<u>\$ 591,341</u>

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2004

Net changes in fund balances - total governmental funds \$ 83,506

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$610,475) exceeded capital outlays (\$279,201). (331,274)

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities. 63,646

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:		
Bond principal	125,000	
Note principal	12,691	137,691

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities. (50,322)

Amount reported in the prior year as a note receivable and deferred revenue in the fund financial statements which was written-off as uncollectable in the current year. (68,838)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	(26,040)	
Accrued interest on bonds	2,767	(23,273)

Changes in net assets of governmental activities \$ (188,864)

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
March 31, 2004

	Land Development	Electric Utility	Waste Water Utility	Water Utility
ASSETS				
Current assets:				
Cash and cash equivalents	\$ (41,974)	\$ 1,584,921	\$ (159,689)	\$ (222,625)
Receivables:				
Accounts	-	-	33,545	15,750
Utilities	-	456,542	95,994	81,656
Special assessments	-	-	505	800
Notes	-	-	-	-
Interest	-	1,784	-	-
Miscellaneous	-	7,762	-	-
Prepaid expense	-	-	10,231	9,419
Inventory	-	410,949	-	-
Total current assets	<u>(41,974)</u>	<u>2,461,958</u>	<u>(19,414)</u>	<u>(115,000)</u>
Noncurrent assets:				
Investments	-	159,808	-	-
Notes receivable	-	-	-	-
Due from other funds	-	1,306,866	993	993
Bond issuance costs	-	-	21,881	23,183
Capital assets:	657,500	6,454,649	3,787,784	4,181,994
Less accumulated depreciation	(35,685)	(2,457,782)	(1,926,328)	(2,788,483)
Total noncurrent assets	<u>621,815</u>	<u>5,463,541</u>	<u>1,884,330</u>	<u>1,417,687</u>
Total assets	<u>\$ 579,841</u>	<u>\$ 7,925,499</u>	<u>\$ 1,864,916</u>	<u>\$ 1,302,687</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 62,596	\$ 146,615	\$ 8,310	\$ 6,279
Accrued payroll	-	14,361	9,116	8,537
Accrued interest	-	-	10,525	-
Customer deposits	-	58,455	-	-
Compensated absences	-	6,429	4,366	5,732
Bonds payable	-	-	65,000	65,000
Notes payable	-	-	4,538	-
Total current liabilities	<u>62,596</u>	<u>225,860</u>	<u>101,855</u>	<u>85,548</u>
Noncurrent liabilities:				
Due to other funds	360,728	-	457,745	198,584
Compensated absences	-	19,285	13,098	17,194
Bonds payable	-	-	300,000	330,000
Notes payable	-	-	26,234	-
Total noncurrent liabilities	<u>360,728</u>	<u>19,285</u>	<u>797,077</u>	<u>545,778</u>
Total liabilities	<u>\$ 423,324</u>	<u>\$ 245,145</u>	<u>\$ 898,932</u>	<u>\$ 631,326</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 261,087	\$ 3,996,867	\$ 1,465,684	\$ 998,511
Restricted for:				
Expendable:				
Debt covenants	-	-	-	-
Unrestricted	<u>(104,570)</u>	<u>3,683,487</u>	<u>(499,700)</u>	<u>(327,150)</u>
Total net assets	<u>\$ 156,517</u>	<u>\$ 7,680,354</u>	<u>\$ 965,984</u>	<u>\$ 671,361</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ (59,951)	\$ 1,100,682	\$ (117,853)
-	49,295	-
-	634,192	-
-	1,305	-
21,958	21,958	-
-	1,784	-
104	7,866	417
-	19,650	-
-	410,949	-
<u>(37,889)</u>	<u>2,247,681</u>	<u>(117,436)</u>
-	159,808	-
309,698	309,698	-
-	1,308,852	497
-	45,064	-
60,994	15,142,921	1,816,116
<u>(19,740)</u>	<u>(7,228,018)</u>	<u>(1,071,568)</u>
<u>350,952</u>	<u>9,738,325</u>	<u>745,045</u>
<u>\$ 313,063</u>	<u>\$ 11,986,006</u>	<u>\$ 627,609</u>
\$ 458	\$ 224,258	\$ 9,854
496	32,510	1,997
-	10,525	-
-	58,455	-
-	16,527	-
-	130,000	-
-	4,538	135,824
<u>954</u>	<u>476,813</u>	<u>147,675</u>
98,281	1,115,338	-
-	49,577	-
-	630,000	-
-	26,234	182,049
<u>98,281</u>	<u>1,821,149</u>	<u>182,049</u>
<u>\$ 99,235</u>	<u>\$ 2,297,962</u>	<u>\$ 329,724</u>
\$ 41,254	\$ 6,763,403	\$ 426,675
17,543	17,543	-
<u>155,031</u>	<u>2,907,098</u>	<u>(128,790)</u>
<u>\$ 213,828</u>	<u>\$ 9,688,044</u>	<u>\$ 297,885</u>

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended March 31, 2004

	Land Development	Electric Utility	Waste Water Utility	Water Utility
OPERATING REVENUES:				
Charges for services	\$ -	\$ 2,376,452	\$ 484,729	\$ 480,515
Miscellaneous	35,013	127,016	8,780	8,652
Total operating revenue	\$ 35,013	\$ 2,503,468	\$ 493,509	\$ 489,167
OPERATING EXPENSES:				
Salaries and fringes	\$ -	\$ 401,040	\$ 284,435	\$ 260,987
Supplies	2,723	12,395	23,176	23,474
Contracted services	10,234	45,489	12,780	10,824
Repairs and maintenance	-	60,303	17,124	10,556
Utilities	-	10,407	24,654	41,230
Purchased power	-	1,322,180	-	-
Rent	2	26,457	15,286	8,048
Memberships and dues	-	5,582	867	265
Travel	-	1,091	186	94
Insurance	-	12,588	9,247	11,166
Education and training	-	7,129	230	2,130
In lieu of taxes	-	60,000	12,000	12,000
Depreciation	12,075	193,539	121,675	89,134
Miscellaneous	-	89,768	26,578	28,544
Total operating expenses	25,034	2,247,968	548,238	498,452
Operating income (loss)	9,979	255,500	(54,729)	(9,285)
NONOPERATING REVENUES (EXPENSES):				
Interest income	-	22,892	1,219	1,286
Gain (loss) on sale of equipment	-	500	-	-
Interest expense	-	-	(27,105)	(27,120)
Total nonoperating revenue (expense)	-	23,392	(25,886)	(25,834)
Income (loss) before transfers and contributions	9,979	278,892	(80,615)	(35,119)
Capital contributions	-	12,597	45,185	5,866
Transfer out	-	(239,258)	-	-
Change in net assets	9,979	52,231	(35,430)	(29,253)
Total net assets - beginning	146,538	7,628,123	1,001,414	700,614
Total net assets - ending	\$ 156,517	\$ 7,680,354	\$ 965,984	\$ 671,361

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ - 6,030	\$ 3,341,696 185,491	\$ 441,379 -
<u>\$ 6,030</u>	<u>\$ 3,527,187</u>	<u>\$ 441,379</u>
\$ 14,531 1,633 8,896 - - - 24 - - - - - 1,865 12,647	\$ 960,993 63,401 88,223 87,983 76,291 1,322,180 49,817 6,714 1,371 33,001 9,489 84,000 418,288 157,537	\$ 108,906 42,578 18,800 50,327 19,081 - 11,032 - 381 12,293 - 4,200 94,358 82
<u>39,596</u>	<u>3,359,288</u>	<u>362,038</u>
<u>(33,566)</u>	<u>167,899</u>	<u>79,341</u>
16,839 - -	42,236 500 (54,225)	- 50 (15,745)
<u>16,839</u>	<u>(11,489)</u>	<u>(15,695)</u>
(16,727)	156,410	63,646
- -	63,648 (239,258)	- -
(16,727)	(19,200)	63,646
<u>230,555</u>	<u>9,707,244</u>	<u>234,239</u>
<u>\$ 213,828</u>	<u>\$ 9,688,044</u>	<u>\$ 297,885</u>

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2004

	Land Development	Electric Utility	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ -	\$ 2,531,209	\$ 379,369	\$ 402,205
Payments to suppliers	(33,726)	(1,667,693)	(97,442)	(151,065)
Payments for wages and related benefits	-	(386,603)	(282,278)	(257,290)
Other receipts (payments)	35,013	127,016	8,780	8,652
Net cash provided (used) by operating activities	1,287	603,929	8,429	2,502
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	-	(239,258)	-	-
Cash received (paid) on customer deposits	-	(3,247)	-	-
Net cash provided (used) by noncapital financing activities	-	(242,505)	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of fixed assets	-	(454,034)	(137,688)	(139,903)
Principal paid on debt instruments	-	-	(59,293)	(55,000)
Interest paid on debt instruments	-	-	(30,200)	(28,950)
Proceeds from bond refinancing	-	-	305,000	335,000
Payments to defease bonds	-	-	(380,334)	(400,771)
Gain on sale of fixed assets	-	500	-	-
Capital contributions	-	12,597	45,185	5,866
Net cash provided (used) by capital and related financing activities	-	(440,937)	(257,330)	(283,758)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in ATC	-	(159,808)	-	-
Interest earnings	-	22,892	1,219	1,286
Net cash provided (used) by investing activities	-	(136,916)	1,219	1,286
Net increase (decrease) in cash and equivalents	1,287	(216,429)	(247,682)	(279,970)
Cash and equivalents, beginning of year	(43,261)	1,801,350	87,993	57,345
Cash and equivalents, end of year	<u>\$ (41,974)</u>	<u>\$ 1,584,921</u>	<u>\$ (159,689)</u>	<u>\$ (222,625)</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 9,979	\$ 255,500	\$ (54,729)	\$ (9,285)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	12,075	193,539	121,675	89,134
Changes in assets and liabilities:				
(Increase) decrease in receivables	-	174,346	(104,367)	(77,317)
(Increase) decrease in due from other funds	-	(19,589)	(993)	(993)
(Increase) decrease in inventory	-	(13,683)	-	-
Increase (decrease) in accounts payable	(20,767)	(621)	4,686	(2,734)
Increase (decrease) in accrued payroll	-	14,437	2,157	3,697
Increase (decrease) in due to other funds	-	-	40,000	-
Net cash provided by operating activities	<u>\$ 1,287</u>	<u>\$ 603,929</u>	<u>\$ 8,429</u>	<u>\$ 2,502</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ 19,975	\$ 3,332,758	\$ 440,962
(23,056)	(1,972,982)	(158,696)
(14,453)	(940,624)	(109,668)
(21,690)	157,771	-
(39,224)	576,923	172,598
-	(239,258)	-
-	(3,247)	-
-	(242,505)	-
-	(731,625)	(98,507)
-	(114,293)	(77,337)
-	(59,150)	(15,745)
-	640,000	-
-	(781,105)	-
-	500	50
-	63,648	-
-	(982,025)	(191,539)
-	(159,808)	-
16,839	42,236	-
16,839	(117,572)	-
(22,385)	(765,179)	(18,941)
(37,566)	1,865,861	(98,912)
<u>\$ (59,951)</u>	<u>\$ 1,100,682</u>	<u>\$ (117,853)</u>
\$ (33,566)	\$ 167,899	\$ 79,341
1,865	418,288	94,358
13,945	6,607	(417)
-	(21,575)	-
-	(13,683)	-
144	(19,292)	78
78	20,369	(762)
(21,690)	18,310	-
<u>\$ (39,224)</u>	<u>\$ 576,923</u>	<u>\$ 172,598</u>

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
March 31, 2004

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 446
Receivables:	
Delinquent taxes	<u>155,005</u>
Total assets	<u><u>\$ 155,451</u></u>
LIABILITIES	
Due to other units governmental units	<u><u>\$ 155,451</u></u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) REPORTING ENTITY

The City of Gladstone was incorporated March 1, 1889 under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government.

For financial reporting purposes, in conformance with GASB Statement 14, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services. The following entities are not included because the City does not exercise oversight responsibility or they are autonomous governmental units.

Gladstone Area Schools – provides education services to the community.

Gladstone Area Public Library – provides library services to the community.

Gladstone Area Public Housing Commission – provides housing for the elderly.

Gladstone Senior Citizens Non-Profit Corporation – provides recreational activities for the elderly.

Joint Venture – The City of Gladstone is a participant with Delta County, the City of Escanaba, and local townships in a joint venture to provide for a new landfill, the Delta Solid Waste Management Authority. The Authority is governed by a seven person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities, and one member of the Delta County Board of Commissioners. Complete financial statements for the Delta Solid Waste Management Authority can be obtained directly from Delta Solid Waste Management Authority. See note Q for additional information.

Delta Solid Waste Management Authority
1100 Delta Avenue
Gladstone, MI 49837

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The accounting policies of the City of Gladstone conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds in accordance with the above criteria:

The General Fund which is described below.

The Major Street Fund which is used to account for the repair, maintenance and construction of the City's major streets.

The Revolving Loan Fund which accounts for activity relating to loans made to local business.

The City reports the following as major enterprise funds in accordance with the above criteria:

The Land Development Fund which accounts for various land improvements which are made to prepare property for development.

The Electric Utility Fund accounts for electric services provided to the citizens of the City of Gladstone.

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Gladstone.

The Water Utility Fund accounts for water services provided to the citizens of the City of Gladstone.

The funds of the City are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Fund – The Cemetery Perpetual Care Fund is the City's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund – The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. In the government-wide financial statements, the Equipment Fund is the City's only internal service fund and is included with the governmental activities and accounts for equipment usage activity used by various City departments.

Fiduciary Funds

Agency Fund - The Tax Fund is the City's only agency fund and is used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

As allowed by GASB Statement No. 20, the City has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds.

(4) ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. The City has not recorded an allowance for uncollectables as the City does not anticipate any material uncollectable accounts.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- d. Inventory – Materials inventory in the Electric Utility Fund and supplies inventory in the General and Major Street Funds are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Prior to April 1, 2001, governmental funds' infrastructure asset, the major and local street systems, were not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25 – 50 years
Machinery and equipment	3 – 20 years
Infrastructure	10 – 50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- f. Restricted Assets – Restricted assets include cash and equivalents which have been reserved for the principal portion of the Cemetery Perpetual Care Fund non-expendable cash.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$37,670 in the General Fund for personal property taxes and advanced grant revenue, \$306,806 in the Revolving Loan Fund for long-term contracts receivable and \$15,823 in the Downtown Development Fund for amounts due from the State of Michigan. These amounts have been deemed measurable, but not currently available.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

j. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(5) REVENUES AND EXPENDITURES/EXPENSES

Revenues

Government-Wide Statements

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues includes all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

Fund Statements

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City's policy to use restricted resources first.

Expenses/Expenditures

Government-Wide Statements

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Other Financing Sources (Uses)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

(6) OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to February 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to April 1, the budget is legally enacted through passage of an ordinance.
- c. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
- d. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council in March. Individual amendments were not material in relation to the original appropriations which were amended.
- e. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

Property Taxes

Property taxes levied attach as an enforceable lien on property. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District, the Community College and the County. Collections and remittances for all taxes are accounted for in the Tax (Agency) Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE

Budget Violations – Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

Major Street	\$ 69,442
Local Street	52,975
State Trunkline	3,869

- (2) Actual expenditures exceeded budgeted amounts for certain expenditure categories within the following funds:

General Fund

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE C – CASH AND EQUIVALENTS

The composition of cash and equivalents as reported in the government-wide Statement of Net Assets is presented below:

Imprest Cash		\$	640
Deposits:			
Checking accounts	\$	445,437	
Certificate of Deposit		<u>1,125,000</u>	<u>1,570,437</u>
Total cash and equivalents			<u>\$ 1,571,077</u>
Government-wide Statement of Net Assets Presentation:			
Unrestricted	\$	1,351,869	
Restricted		<u>218,762</u>	<u>1,570,631</u>
Statement of Fiduciary Net Assets			<u>446</u>
Total cash and equivalents			<u>\$ 1,571,077</u>

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE C – CASH AND EQUIVALENTS (continued)

- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

All deposits are carried at cost and are in accordance with statutory authority. The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the City's cash deposits are as follows:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE C – CASH AND EQUIVALENTS (continued)

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 300,000	\$ 300,000
Uninsured	<u>1,334,462</u>	<u>1,271,077</u>
Total	<u>\$ 1,634,462</u>	<u>\$ 1,571,077</u>

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$218,762 for cemetery care as required by the nature of the fund.

During the fiscal year ended March 31, 2004, the City refinanced the 1994 waste water and water system revenue bonds, in part by issuing 2004 waste water and water system revenue bonds. As part of issuing the new bonds, the bond agreement calls for the City to establish and maintain separate depository accounts for bond and interest redemption and an account for replacement and improvement. As of the date of our auditor's report, these accounts have not been established.

NOTE D – INVESTMENTS

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City contributed \$132,711 in cash and \$27,097 in equipment for a total investment of \$159,808.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE D – INVESTMENTS (continued)

The following is the percentage interest in UPPPA by municipality:

Village of Baraga	4.66%
City of Crystal Falls	4.36%
City of Gladstone	6.88%
Village of L'Anse	3.45%
Marquette Board of Light and Power	67.64%
City of Negaunee	5.82%
City of Norway	7.19%
	<hr/>
Total	<u>100.00%</u>

UPPPA owns .6322% of ATC, LLC and .6322% of ATC Management, Inc.

NOTE E – PROPERTY TAXES

(1) Tax information:

Assessment Date. December 31

Taxes payable July 10

Taxes Delinquent March 1 following date payable

Penalties for delinquency – The following charges are added to unpaid taxes:

On August 15, a 4% penalty is added.

Commencing March 1, interest is added to all unpaid taxes at the rate of 1% per month. Delinquent real property taxes are acquired by the Treasurer of Delta County. An additional 4% collection fee is added to the balance owing at the time.

Lien on property – Unpaid taxes, together with all charges thereon, become a continuing lien on property assessed. The general tax law of the State provides that real estate delinquent for taxes be sold at public auction in July or November of the second year following the year of tax levy.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE E – PROPERTY TAXES (continued)

(2) Schedule of State Equalized Valuation and Taxable Values:

<u>Year</u>	<u>Real</u>	<u>Personal</u>	<u>Total</u>
1961	5,587,235	1,118,180	6,705,415
1962	5,598,660	1,205,260	6,803,920
1963	5,626,235	1,155,835	6,782,070
1964	5,644,135	1,142,530	6,786,665
1965	5,599,860	953,840	6,553,700
1966	5,636,540	1,169,945	6,806,485
1967	6,775,445	1,660,800	8,436,245
1968	7,897,400	1,824,000	9,721,400
1969	8,167,350	1,953,550	10,120,900
1970	8,314,800	2,096,250	10,411,050
1971	8,566,700	2,045,300	10,612,000
1972	10,121,150	2,065,580	12,186,730
1973	11,297,663	2,020,500	13,318,163
1974	13,509,300	2,179,100	15,688,400
1975	14,149,600	2,237,000	16,386,600
1976	14,966,925	971,450	15,938,375
1977	16,742,200	1,177,950	17,920,150
1978	18,634,825	1,280,350	19,915,175
1979	20,554,123	1,249,450	21,803,573
1980	22,818,556	1,416,900	24,235,456
1981	23,717,233	1,402,900	25,120,133
1982	25,591,300	1,416,100	27,007,400
1983	26,259,100	1,735,400	27,994,500
1984	26,456,400	1,886,300	28,342,700
1985	27,148,200	2,128,500	29,276,700
1986	28,189,600	2,339,400	30,529,000
1987	28,523,700	2,300,100	30,823,800
1988	28,897,200	3,542,000	32,439,200
1989	29,348,900	3,564,000	32,912,900
1990	30,052,800	3,928,000	33,980,800
1991	32,466,100	4,025,000	36,491,100
1992	35,490,200	4,653,700	40,143,900
1993	34,997,900	4,170,900	39,168,800
1994	37,978,900	4,598,000	42,576,900
1995	40,146,600	4,840,200	44,986,800
1996	44,252,300	5,614,100	49,866,400
1997	44,731,000	5,547,450	50,278,450
1998	48,702,846	6,544,900	55,247,746
1999	52,246,500	7,261,900	59,508,400
2000	56,966,800	7,003,200	63,970,000
2001	61,646,100	6,894,200	68,540,300
2002	65,730,220	7,074,246	72,804,466
2003	69,954,964	7,532,830	77,487,794

Note: Pursuant to Proposal A, assessed property taxes are levied based upon taxable values beginning in 1995.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE E – PROPERTY TAXES (continued)

The State of Michigan, beginning in 1967, required that taxes be levied on state equalized valuations rather than on assessed valuation. The valuations for the years 1961 through 1966, inclusive, are City assessed valuations, the year 1967 are state equalized valuations, and the year 1968 are City assessed valuations. In 1968, the City was allowed to assess on City valuations because they were almost equal to that of State equalized valuations. For years 1969 to 2003, inclusive, the City and State valuations are the same.

(3) Annual tax rates (per \$1,000 valuation):

Year	City Tax	School *	Schools			Total Local Taxes	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt					
1961	14.7300	17.0000	-	-	-	31.7300	-	7.9300	-	39.6600
1962	14.7400	23.6000	-	-	-	38.3400	-	7.9500	-	46.2900
1963	14.7700	23.3900	-	-	-	38.1600	1.1410	10.1550	0.1140	49.5700
1964	15.9100	23.1200	-	-	-	39.0300	1.1400	8.1600	0.0800	48.4100
1965	15.9300	24.2300	-	-	-	40.1600	1.1400	8.2300	0.1000	49.6300
1966	15.9000	24.8600	-	-	-	40.7600	1.1400	8.2100	0.6900	50.8000
1967	14.0600	21.8000	-	-	-	35.8600	1.0000	6.2000	0.6000	43.6600
1968	14.0000	23.3000	-	-	-	37.3000	2.5000	5.2000	0.6000	45.6000
1969	15.0000	21.8000	-	-	-	36.8000	2.5000	5.2000	1.1100	45.6100
1970	17.0000	19.8000	-	-	-	36.8000	2.5000	5.9000	1.1460	46.3460
1971	17.0000	22.0000	-	-	-	39.0000	2.5000	5.9000	2.2200	49.6200
1972	17.0000	21.3000	-	-	-	38.3000	2.5000	6.2000	2.6500	49.6500
1973	17.0000	27.1000	-	-	-	44.1000	2.5000	5.0000	2.7000	54.3000
1974	16.0000	24.1000	-	-	-	40.1000	2.5000	5.0000	2.7000	50.3000
1975	17.0000	23.7000	-	-	-	40.7000	2.5000	5.4500	2.6500	51.3000
1976	17.0000	27.2000	-	-	-	44.2000	2.5000	5.4500	2.6500	54.8000
1977	17.0000	27.2800	-	-	-	44.2800	2.5000	5.4500	2.6500	54.8800
1978	17.0000	16.7300	-	-	-	33.7300	2.5000	5.4500	2.6500	44.3300
1979	17.0000	27.6000	-	-	-	44.6000	2.5000	5.4500	2.6500	55.2000
1980	17.0000	30.1200	-	-	-	47.1200	2.5000	5.4500	2.6500	57.7200
1981	17.0000	32.4800	-	-	-	49.4800	2.5000	5.4500	2.6500	60.0800
1982	16.9900	31.2800	-	-	-	48.2700	2.5000	5.2000	2.6500	58.6200
1983	16.9371	21.2800	-	-	-	38.2171	2.5000	5.0844	2.6500	48.4515
1984	16.8867	31.6129	-	-	-	48.4996	2.5000	5.4500	2.6500	59.0996
1985	17.0000	33.8496	-	-	-	50.8496	2.5000	5.4500	2.6500	61.4496
1986	17.0000	33.4659	-	-	-	50.4659	2.5000	5.4500	2.6500	61.0659
1987	17.0000	33.2594	-	-	-	50.2594	2.5000	6.1000	2.6500	61.5094
1988	17.0000	33.2732	-	-	-	50.2732	2.5000	5.4500	2.6500	60.8732
1989	17.0000	37.5654	-	-	-	54.5654	2.5000	6.1000	2.6500	65.8154
1990	17.0000	37.5452	-	-	-	54.5452	2.5000	7.0500	2.6500	66.7452

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE E – PROPERTY TAXES (continued)

<u>Year</u>	<u>City Tax</u>	<u>School * Tax</u>	<u>Schools</u>			<u>Total</u>	<u>Community College</u>	<u>County Taxes</u>	<u>I.S.D.</u>	<u>Total</u>
			<u>Non- Homestead</u>	<u>State</u>	<u>Debt</u>	<u>Local Taxes</u>				
1991	17.0000	37.0772	-	-	-	54.0772	2.5000	7.1000	2.6500	66.3272
1992	17.0000	37.0522	-	-	-	54.0522	2.5000	7.1000	2.6500	66.3022
1993	16.6575	35.6443	-	-	-	52.3018	2.4055	7.0873	2.5501	64.3447
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	53.7508
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	54.6508
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	3.3735	7.0483	2.5124	54.2748
1997	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1998	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1999	16.1065	-	18.0000	6.0000	8.5600	48.6665	3.3600	7.0107	2.4917	61.5289
2000	15.9180	-	18.0000	6.0000	8.5600	48.4780	3.3585	6.6319	2.4807	60.9491
2001	15.6744	-	18.0000	6.0000	8.5600	48.2344	3.3511	6.6112	2.4695	60.6662
2002	15.6680	-	18.0000	6.0000	8.5600	48.2280	3.3506	6.6097	2.4596	60.6479
2003	15.6303	-	18.0000	5.0000	8.5600	47.1903	3.5000	6.5719	2.4375	59.6997

* From 1961 to 1993, the school millage was applied to all properties and included the debt millage.

- (4) City's Share of Current Property Taxes – The City's share of current real and personal property taxes included in the General Fund for the year ended March 31, 2004 was \$1,109,633.

NOTE F – LONG-TERM RECEIVABLES

Governmental Activities:

- (1) Revolving Loan Fund – The City has received various grants from the State of Michigan Small Cities Grant Program which it has loaned to local businesses on installment contracts for building and equipment acquisition. The primary purpose for the loans was job retention and creation within the City.

The Revolving Loan Fund has recorded as deferred revenue the amount of the loans in the fund financial statements. As the contract payments are received by the Revolving Loan Fund, they will be shown as revenues in accordance with generally accepted accounting principles. In the statement of net assets the deferred revenue has been eliminated. Remaining principal payments to be received as of March 31, 2004 are as follows:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE F – LONG-TERM RECEIVABLES (continued)

Year Ending March 31	Amount
2005	\$ 39,872
2006	45,230
2007	46,025
2008	20,620
2009	18,222
Thereafter	136,838
Total	<u>\$ 306,807</u>

In prior years, the City, through the Revolving Loan Fund, made two loans to Lakeside Machine which has since ceased operations, one for \$93,000 and another for \$100,000. Based on the circumstances relating to the closure and the way the note was written, the City has determined that the note with an original principal balance of \$93,000 and a carrying value of \$68,838 be written-off as uncollectable. The remaining note with an original principal balance of \$100,000 and a carrying value of \$92,299 is being pursued by the City and has not been deemed uncollectable as of March 31, 2004.

Business-Type Activities:

The Economic Development Corporation has made loans to various local businesses to assist in capital asset acquisitions or for operational needs. Remaining principal payments to be received as of March 31, 2004 are as follows:

Year Ending March 31	Amount
2005	\$ 21,958
2006	96,700
2007	14,278
2008	15,157
2009	16,088
Thereafter	167,475
Total	<u>\$ 331,656</u>

CITY OF GLADSTONE, MICHIGAN
NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE G – CAPITAL ASSETS

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended March 31, 2004, was as follows:

	Balance at April 1, 2003	Additions	Disposals	Balance at March 31, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,543,198	\$ 58,429	\$ -	\$ 1,601,627
Capital assets being depreciated:				
Land improvements	119,600	-	-	119,600
Buildings	2,622,752	-	-	2,622,752
Machinery and equipment	2,573,344	163,881	91,947	2,645,278
Infrastructure-road system	9,441,353	149,737	-	9,591,090
Infrastructure-other	103,189	5,164	-	108,353
Total capital assets	<u>16,403,436</u>	<u>377,211</u>	<u>91,947</u>	<u>16,688,700</u>
Less accumulated depreciation:				
Land improvements	12,299	11,621	-	23,920
Buildings	953,690	56,788	-	1,010,478
Machinery and equipment	1,556,314	155,281	91,947	1,619,648
Infrastructure-road system	6,404,631	475,811	-	6,880,442
Infrastructure-other	2,150	5,332	-	7,482
Total accumulated depreciation	<u>8,929,084</u>	<u>704,833</u>	<u>91,947</u>	<u>9,541,970</u>
Governmental activities capital assets, net	<u>\$ 7,474,352</u>	<u>\$ (327,622)</u>	<u>\$ -</u>	<u>\$ 7,146,730</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE G – CAPITAL ASSETS (continued)

	Balance at April 1, 2003	Additions	Disposals	Balance at March 31, 2004
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 411,336	\$ -	\$ -	\$ 411,336
Capital assets being depreciated:				
Buildings	690,856	58,942	558,844	190,954
Machinery and equipment	724,587	40,285	82,185	682,687
Distribution/collection system	13,225,548	632,396	-	13,857,944
Total capital assets	15,052,327	731,623	641,029	15,142,921
Less accumulated depreciation:				
Buildings	572,267	5,145	558,844	18,568
Machinery and equipment	421,999	9,575	82,185	349,389
Distribution/collection system	6,456,493	403,568	-	6,860,061
Total accumulated depreciation	7,450,759	418,288	641,029	7,228,018
Business-type activities capital assets, net	<u>\$ 7,601,568</u>	<u>\$ 313,335</u>	<u>\$ -</u>	<u>\$ 7,914,903</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:	
General government	\$ 10,147
Public health and safety	72,412
Parks and recreation	62,554
Cemetery	4,623
General public works	29,874
Street system	523,444
Community development	1,779
Total governmental activities depreciation expense	<u>\$ 704,833</u>
Business-type activities:	
Electric	\$ 193,539
Water	89,134
Waste water	121,675
Development	13,940
Total business-type activities depreciation expense	<u>\$ 418,288</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE G – CAPITAL ASSETS (continued)

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$2,000 or more as of March 31, 2002. In prior years, the City capitalized fixed assets with a value of \$500 or more.

NOTE H – RETIREMENT PLANS

MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM

(1) Plan Description – The City of Gladstone participates in a defined benefit noncontributory retirement plan administered by the Municipal Employee's Retirement System (MERS) which covers substantially all full-time employees. MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. All full-time employees of the City are eligible to participate in the system who were hired prior to December 1, 1997. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851, MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

There are three valuation divisions within the plan which provide different benefit provisions. The General Other division, which covers the non-supervisory employees of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after age 55 with 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final five-year average compensation.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE H – RETIREMENT PLANS (continued)

The Police-Fire division, which covers the police and fire personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final five-year average compensation.

The General Supervisor division, which covers the supervisory personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after the age of 55 with 20 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation, with a maximum benefit of 80 percent of the member's final five-year average compensation.

All three valuation divisions adopted the Benefit E which provides a onetime benefit increase to present retirees and beneficiaries. The amount of the increase is equal to 2 percent of the present benefit times the number of years since the later of retirement or the last Benefit E increase.

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2002. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2002 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE H – RETIREMENT PLANS (continued)

GASB 25 INFORMATION (AS OF 12/31/02)

Actuarial Accrued Liability:		
Retirees and beneficiaries currently receiving benefits	\$	3,858,281
Terminated employees not yet receiving benefits		184,360
Current Employees:		
Accumulated employee contributions including allocated investment income		87,292
Employer financed		3,114,241
		<hr/>
Total actuarial liability		7,244,174
		<hr/>
Net assets available for benefits, at actuarial value (market value is \$3,720,270)		4,681,789
		<hr/>
Unfunded (overfunded) actuarial accrued liability	\$	2,562,385
		<hr/>

GASB 27 INFORMATION (AS OF 12/31/02)

Fiscal year beginning		April 1, 2004
Annual required contribution (ARC)	\$	225,096
Amortization factor used		0.055889

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2002 were determined using the entry age normal cost actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

<u>Year Ended</u> <u>March 31,</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2001	148,429	100%	-
2002	178,769	100%	-
2003	183,316	100%	-

The City was required to contribute \$220,896 for the year ended March 31, 2004. Payments were based on contribution calculations made by MERS.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE H – RETIREMENT PLANS (continued)

Aggregate Accrued Liabilities – Comparative Schedule

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2000	4,554,917	6,186,345	1,631,428	74%	1,125,123	145%
2001	4,765,634	6,895,344	2,129,710	69%	1,109,224	192%
2002	4,681,789	7,244,174	2,562,385	65%	1,045,871	245%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997 and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

401 (A) RETIREMENT PLAN

During the year ended March 31, 1998, the City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by the International City/County Management Association. Employees who are hired after December 1, 1997, with the exception of the employees who are members of the POLC union, are eligible to participate in the plan, which requires the City to contribute 8% of the employee's gross wage to the plan. In addition, if the employee contributes an additional 3.0% to the plan the City will match the employee contribution of 3%. All contributions are held and owned in the name of each employee. As of March 31, 2004 the City had 22 employees participating in the plan and made contributions totaling \$79,360 and employee contributions of \$20,913.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE I – VESTED EMPLOYEE BENEFITS

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations become vested as a result of employee age and years of employment. Compensated absences in the amount of \$165,631 are reported under governmental activities and \$66,104 is reported under business-type activities in the Statement of Net Assets.

NOTE J – POST RETIREMENT HEALTH BENEFITS

The City provides its employees with post retirement health benefits. These benefits were negotiated through union contracts for the P.O.L.C. and Teamsters union contracts and approved separately for the Supervisors group, a non-union group.

The P.O.L.C. contract requires the City to pay the monthly health insurance premium for employees who meet the retirement criteria as outlined in the union contract until the age of 65, or for 12 years, whichever is less. Any increase in the monthly premiums after the date of retirement shall be borne by the retired employee. The Teamsters contract requires the City to pay the monthly health insurance premiums for 10 years after retirement or until covered by Medicare, whichever is less. The City is required to pay premium increase for years one through seven and the retired employee will pay the premium increases for years eight, nine and ten. The City has agreed to provide the Supervisors group with post employment health benefits for a period of 10 years or until the age of 65, whichever comes first. All premium increases during that period of time will be covered by the City.

Expenditures for the premiums are paid and recognized as they become due. During the year ended March 31, 2004, the City had a total of 8 retirees covered by the health insurance plan and a total of \$85,146 was expended for retiree health insurance premiums.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE K – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2004:

Type of Debt	Balance April 1, 2003	Additions	Deductions	Balance March 31, 2004	Amounts Due Within One Year
Governmental Activities:					
Note - fire truck	\$ 134,943	\$ -	\$ 12,691	\$ 122,252	\$ 13,421
Note - vac truck	89,418	-	17,408	72,010	72,010
Note - garbage truck	73,754	-	12,574	61,180	14,237
Note - dump truck	59,554	-	19,463	40,091	20,530
Note - loader	95,922	-	9,472	86,450	9,870
Note - dump truck	76,562	-	18,420	58,142	19,177
D.D.A. bonds	640,000	-	75,000	565,000	80,000
1995 B.A. bonds	145,000	-	20,000	125,000	20,000
2000 B.A. bonds	845,000	-	30,000	815,000	30,000
Compensated absences	139,591	26,040	-	165,631	41,408
Total governmental long-term debt	<u>\$ 2,299,744</u>	<u>\$ 26,040</u>	<u>\$ 215,028</u>	<u>\$ 2,110,756</u>	<u>\$ 320,653</u>
Business-type Activities:					
Note - tanker truck	\$ 35,065	\$ -	\$ 4,293	\$ 30,772	\$ 4,538
1994 Waste Water bond	465,000	-	405,000	60,000	60,000
1994 Water bond	485,000	-	425,000	60,000	60,000
2004 Waste Water bond	-	305,000	-	305,000	5,000
2004 Water bond	-	335,000	-	335,000	5,000
Compensated absences	49,139	16,965	-	66,104	16,527
Total business-type long-term debt	<u>\$ 1,034,204</u>	<u>\$ 656,965</u>	<u>\$ 834,293</u>	<u>\$ 856,876</u>	<u>\$ 151,065</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE K – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at March 31, 2004 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2005	149,245	17,598	130,000	83,774
2006	78,737	11,720	145,000	75,152
2007	115,193	7,820	150,000	65,903
2008	31,727	4,312	155,000	56,193
2009	17,868	3,048	175,000	45,766
2010-2014	47,355	3,494	330,000	139,333
2015-2019	-	-	285,000	72,041
2020-2024	-	-	135,000	6,962
	<u>\$ 440,125</u>	<u>\$ 47,992</u>	<u>\$ 1,505,000</u>	<u>\$ 545,124</u>

For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2005	4,538	1,548	130,000	36,424
2006	4,786	1,300	120,000	15,188
2007	5,051	1,035	125,000	12,788
2008	5,329	757	125,000	10,288
2009	5,626	609	130,000	7,476
2010-2013	5,442	149	130,000	3,900
	<u>\$ 30,772</u>	<u>\$ 5,398</u>	<u>\$ 760,000</u>	<u>\$ 86,064</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE K – LONG-TERM DEBT (continued)

Governmental Activities:

As of March 31, 2004, the governmental activities long-term debt consisted of the following:

Notes Payable:

Note payable issued October 22, 1996 for \$201,985 at 5.4% to First Bank for the purchase of a fire truck. The note calls for 180 monthly principal and interest payments of \$1,640.

During the year ended March 31, 2000, the City signed a 60-month note for the purchase of a vac-all truck. The note calls for monthly payments of \$1,798 and a final balloon payment of \$61,437. The note bears an interest rate of 5.1%.

During 1998, the City signed a 60 month note for the purchase of a garbage truck. The note calls for monthly principal and interest payments of \$1,375 and a final balloon payment of \$71,696. The note bears an interest rate of 5.65%.

During the year ended March 31, 2001, the City signed a 60 month note for the purchase of a tandem axle dump truck with accessories. The note calls for monthly payments (59, including interest) of \$1,848 and bears an interest rate of 5.35%.

During the year ended March 31, 2002 the City signed a 60 month note for the purchase of a front-end loader. The note calls for monthly principal and interest payments of \$1,098 and a final balloon payment of \$60,325 and bears an interest rate of 4.04%.

During the year ended March 31, 2002 , the City signed a 60 month note for the purchase of a dump truck. The note calls for monthly principal and interest payments of \$1,763 and bears an interest rate of 4.0%.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE K – LONG-TERM DEBT (continued)

Bonds Payable:

Bond were issued November 1, 1994 for \$995,000 with a variable interest rate ranging from 5.9% to 8.0% for the purpose of making improvements on the Downtown Development Area and have a final maturity of May 2009.

Bond were issued March 15, 1995 for \$270,000 at 5.6% in the name of the Building Authority for the purpose of making improvements at the Sports Park and have a final maturity of March 2009.

Bond were issued May 4, 2000 for a total of \$891,190 at 5% in the name of the Building Authority for the purpose of paying the cost of acquiring, constructing and equipping a public safety building to be used by the City and have a final maturity of May 2020.

Business-type Activities:

As of March 31, 2004, the long-term debt of business-type activities consists of the following:

Note Payable:

During the year ended March 31, 2000, the City signed a 120 month note for the purchase of a tanker truck. The note calls for monthly principal and interest payments of \$507 and bears an interest rate of 5.4%.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE K – LONG-TERM DEBT (continued)

Bonds Payable:

1994 Waste Water System Bonds - General obligation waste water system bonds, original issue dated October 10, 1994 for \$800,000 with a variable interest rate ranging from 4.25% to 6.4%. Bonds are due serially from May 1, 1996 until May 1, 2009. Interest is payable in the years 1996 to 2004, inclusive, are not subject to prepayment prior to maturity. Bonds or portions thereof in multiples of \$5,000 payable in the year 2005 and thereafter may be prepaid at the option of the Issuer, in such order as the Issuer shall determine and within any maturity by lot, on any interest payment date on or after May 1, 2004 at par and accrued interest to the date fixed for prepayment plus a premium expressed as a percentage of par as follows:

2% of par of each installments or portions thereof called for prepayment on or after May 1, 2004, but prior to May 1, 2005.

1% of the par of each installments or portions thereof called for prepayment on or after May 1, 2006.

No premiums shall be paid on installments or portions thereof called for prepayment on or after May 1, 2006.

General purpose of the bond issue was to construct a sewer system at the South Bluff.

During the year ended March 31, 2004, the City defeased the 1994 waste water bonds in the amount of \$350,000, leaving an outstanding balance on the bonds of \$60,000. The refunding was accomplished by issuing new bonds in the amount of \$305,000 and additional cash contribution from the City's Waste Water Fund. The funds used to pay-off the bonds were placed in escrow to satisfy the required future principal and interest requirements of the defeased amount of \$350,000 and no further payments relating to the defeased bonds are required.

1994 Water System Bonds - General obligation water system bonds, original dated October 1, 1994 for \$800,000 with a variable interest rate ranging from 4.25% to 6.4%. Bonds are due serially from October 1, 1995 until October 1, 2009. Interest is payable April 1 and October 1. Bonds of this issue maturing in the years 1995 to 2004, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 maturing in the year 2005 and thereafter may be redeemed at the option of the Issuer, in such order as the Issuer shall determine and within any maturity by lot, on any interest payment date on or

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE K – LONG-TERM DEBT (continued)

after October 1, 2004 at par and accrued interest to the date fixed for redemption plus premium expressed as a percentage of par as follows:

2% of par of each bond or portion thereof called for redemption on or after October 1, 2004, but prior to October 1, 2006.

1% of par of each bond or portion thereof called for redemption on or after October 1, 2006, but prior to October 1, 2008.

No premium shall be paid on bonds or portions thereof called for redemption on or after October 1, 2008.

General purpose of the bond issue was to construct a water system at the South Bluff.

During the year ended March 31, 2004, the City defeased the 1994 water bonds in the amount of \$370,000, leaving an outstanding balance of \$60,000. The refunding was accomplished by issuing new bonds in the amount of \$335,000 and additional cash contribution from the City's Water Fund. The funds used to pay-off the bonds were placed in escrow to satisfy the required future principal and interest requirements of the defeased amount of \$370,000 and no further payments relating to the defeased bonds are required.

2004 Waste Water System Bonds – On February 18, 2004 the City issued waste water system revenue refunding bond series 2004 for the purpose of retiring the 1994 waste water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$305,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each November 1 and May 1. Principal payments are due each November 1 with the final principal payment due no later than November 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$111,505. Of the \$111,505, \$80,000 represents advance payment of principal made by the City as part of defeasing the 1994 bond issue, leaving net cumulative savings of \$31,505. The economic gain resulting from this transaction at a present value of 3.477% is \$20,301.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE K – LONG-TERM DEBT (continued)

2004 Water System Bonds – On February 18, 2004 the City issued water system revenue refunding bond series 2004 for the purpose of retiring the 1994 water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$335,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each October 1 and April 1. Principal payments are due each October 1 with the final principal payment due no later than October 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$21,972. The economic gain resulting from this transaction at a present value of 3.477% is \$14,158.

NOTE L – BOND ISSUANCE COSTS

On February 18, 2004 the City issued waste water and water revenue bonds which resulted in bond issuance costs which will be amortized over the life of the bond issue. Below is the detail relating to the bond issuance costs:

	<u>Bond Costs</u>	<u>Premium paid on 1994 Bonds</u>	<u>Total</u>
Waste Water Fund	\$ 14,881	\$ 7,000	\$ 21,881
Water Fund	\$ 15,783	\$ 7,400	\$ 23,183
			<u>\$ 45,064</u>

CITY OF GLADSTONE, MICHIGAN
NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE M – INTERFUND BALANCES AND TRANSFERS

Individual fund interfund receivables and payable balances at March 31, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 44,213	Land Development	\$ 44,213
		Water Fund	198,584
		Waste Water Fund	457,745
		Land Development	316,515
		General Fund	169,839
		Major Street Fund	46,013
		EDC Fund	98,281
		Local Street Fund	19,889
		Subtotal	<u>1,306,866</u>
Electric Fund	<u>1,306,866</u>		
Major Street Fund	869		
Local Street Fund	621		
Waste Water Fund	993		
Water Fund	993		
Internal Service Fund	497		
	<u>3,973</u>	General Fund	<u>3,973</u>
Subtotal			
	<u>\$ 1,355,052</u>	Total	<u>\$ 1,355,052</u>
Total			

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE M – INTERFUND BALANCES AND TRANSFERS (continued)

Interfund transfers for the year ended March 31, 2004 were as follows:

	Transfers In	Transfers Out
General Fund:		
Electric Utility	\$ 111,185	\$ -
Major Street	-	-
Nonmajor governmental	9,031	-
Total General Fund	120,216	-
Major Steet Fund	85,181	-
Electric Utility	-	239,258
Total Nonmajor Funds	199,510	165,649
Totals	\$ 404,907	\$ 404,907

NOTE N – RESTRICTED FUND EQUITY

Retained earnings reserves as reported on the combined balance sheet at March 31, 2004 are as follows:

Nonmajor Enterprise Fund:

 Restricted for debt covenant:

 Represents the amount the City has guaranteed
 on a business loan

\$ 17,543

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE O – RISK MANAGEMENT

The City of Gladstone participates as a member of the Michigan Municipal Risk Management Authority. The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property.

This summarizes certain obligations of MMRMA and the City. Except for specific coverage limits and the City's Self Insured Retention (hereinafter the "SIR") and deductibles contained in this Coverage Overview, the provisions of the Joint Powers Agreement, Coverage Documents, MMRMA rules, regulations, and administrative procedures shall prevail in any dispute. The City agrees that any dispute between the City and MMRMA will be resolved in the manner stated in the Joint Powers Agreement and MMRMA rules.

City Obligations – City of Gladstone is responsible to pay all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the City's SIR. City of Gladstone's SIR and deductibles are as follows:

Table I
City Deductibles and Self Insured Retentions

COVERAGE	DEDUCTIBLE	SELF INSURED RETENTION
1. Liability	None	State Pool Member
2. Vehicle Physical Damage	\$250/Vehicle	State Pool Member
3. Property & Crime	\$250/Occurrence	State Pool Member

The City must satisfy all deductibles before any payments are made from the City's SIR or by MMRMA.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE O – RISK MANAGEMENT (continued)

All costs including damages and allocated loss adjustment expenses are on an occurrence basis and must be paid first from the City's SIR. The City's SIR and deductibles must be satisfied fully before MMRMA will be responsible for any payments. The most MMRMA will pay is the difference between the City's SIR and the Limits of Coverage stated in the Coverage Overview.

City of Gladstone agrees to maintain, at all times, on account with MMRMA sufficient funds to pay its SIR obligations. The City agrees to abide by all MMRMA rules, regulations, and administrative procedures pertaining to the City's SIR.

MMRMA Obligations – After the City's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses up to limits established per agreement between the City and MMRMA.

NOTE P – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion on management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City at March 31, 2004.

NOTE Q – JOINT VENTURE – DELTA SOLID WASTE LANDFILL

The Delta Solid Waste Management Authority was incorporated in 1984, pursuant to Act 233, Public Acts of Michigan, 1955, by the County of Delta and the local units of government within the County. It was established in order to provide for a new landfill since the current county-wide site, owned by the City of Gladstone, was approaching saturation.

The Authority is governed by a seven-person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities and one member of the Delta County Board of Commissioners. The three members of the Authority Board from the villages and townships will

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

NOTE Q – JOINT VENTURE – DELTA SOLID WASTE LANDFILL (continued)

be selected by and from a body composed of one representative from each such township or village; the three board members of the cities shall be selected by and from a body composed of two representatives from each such city; and the member of the Delta County Board of Commissioners shall be chosen by said Board of Commissioners after review of recommendations by the Townships, Villages and City representatives. The Authority as described herein has no taxing power.

The following local governmental units are participants in the Authority; shown with their respective percentage shares in the Authority:

<u>Local Governmental Unit</u>	<u>Percentage Share</u>
Delta County	51.8%
City of Escanaba	18.6%
City of Gladstone	5.9%
Local Townships	<u>23.7%</u>
	<u><u>100.0%</u></u>

Operation and maintenance costs are paid out of tipping fees assessed against users of the landfill. Parties that use the landfill include the municipal sanitation systems of the cities of Escanaba and Gladstone, and private solid waste companies serving the local units. The landfill began operation in December 1985. Financial information of the Delta Solid Waste Management Authority and Recycling Program is available at their administrative office located at 5701 19th Avenue North, Escanaba, MI 49829.

NOTE R – CONTINGENT ASSET

Many years ago, the City maintained a separate retirement system for its employees which was administered by an insurance company and is held in the name of Gladstone Municipal Employees Retirement System. The assets in this account are in the form of stock and amounted to the \$196,524 as of the statement date of 11/07/03 and is not recorded in the general ledger of the City. The City is currently seeking a legal determination as to the ownership of these funds and if it is found to be a City asset, they will be required to divest their interest in the stocks. There are currently two surviving spouses receiving benefits under this system.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2004

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Federal sources	\$ 206,724	\$ 246,859	\$ 250,857	\$ 3,998
State sources	624,213	627,294	591,555	(35,739)
Local sources	179,510	179,510	208,992	29,482
Taxes	1,177,988	1,177,973	1,271,628	93,655
Recreation	182,475	182,475	198,725	16,250
Public safety	21,858	19,273	20,456	1,183
Interest income	1,500	1,500	1,275	(225)
Miscellaneous	7,900	8,900	35,410	26,510
Total revenues	<u>\$ 2,402,168</u>	<u>\$ 2,443,784</u>	<u>\$ 2,578,898</u>	<u>\$ 135,114</u>
EXPENDITURES:				
General government:				
City commission	\$ 148,620	\$ 148,620	\$ 144,148	\$ 4,472
City manager	32,250	32,250	29,366	2,884
Elections	3,000	3,000	3,137	(137)
City assessor	25,855	25,855	31,741	(5,886)
Board of review	475	475	490	(15)
City treasurer	39,283	39,283	38,235	1,048
City clerk	28,100	28,100	25,809	2,291
City hall	30,750	30,750	45,164	(14,414)
Planning and zoning	14,320	14,320	18,144	(3,824)
School library grant	16,000	-	-	-
Public health and safety:				
Police department	869,400	864,061	862,701	1,360
Fire department	234,944	271,741	275,851	(4,110)
Building and housing inspections	92,062	100,932	105,308	(4,376)
MSHDA grant	229,100	213,771	240,018	(26,247)
Parks and recreation:				
Recreation administrative	62,174	62,174	71,926	(9,752)
Harbor	50,815	47,815	45,541	2,274
Parks	55,100	52,100	47,082	5,018
Beach	40,370	37,770	30,729	7,041
Sports park	131,480	125,880	122,940	2,940
Campground	36,735	33,735	34,638	(903)
Miscellaneous	56,750	59,350	65,786	(6,436)
Cemetery:				
Cemetery administrative	15,500	15,500	19,876	(4,376)
Ground maintenance and burials	59,000	59,000	56,976	2,024
General public works:				
Public works administrative	79,125	79,125	36,800	42,325
Forestry	12,300	12,300	10,649	1,651
Sidewalks	10,000	10,000	7,383	2,617
Grounds maintenance	7,700	7,700	7,218	482
Beautification	13,700	13,700	10,970	2,730
Composting	22,500	22,500	21,380	1,120
Leaf/grass collection	12,000	12,000	15,209	(3,209)
Garbage collection	257,000	257,000	268,777	(11,777)
City clean-up	5,000	5,000	5,122	(122)
Total expenditures	<u>2,691,408</u>	<u>2,685,807</u>	<u>2,699,114</u>	<u>(13,307)</u>
Excess revenues (expenditures)	<u>(289,240)</u>	<u>(242,023)</u>	<u>(120,216)</u>	<u>121,807</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	10,000	10,000	120,216	110,216
Transfer out	<u>(23,774)</u>	<u>(23,774)</u>	<u>-</u>	<u>(23,774)</u>
Total other financing sources (uses)	<u>(13,774)</u>	<u>(13,774)</u>	<u>120,216</u>	<u>86,442</u>
Net changes in fund balances	<u>(303,014)</u>	<u>(255,797)</u>	<u>-</u>	<u>208,249</u>
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ (303,014)</u>	<u>\$ (255,797)</u>	<u>\$ -</u>	<u>\$ 208,249</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND
For the Year Ended March 31, 2004

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with
	Original	Final	(See Note A)	Final Budget- Positive (Negative)
REVENUES:				
State sources	\$ 277,000	\$ 277,000	\$ 331,078	\$ 54,078
Local sources	26,000	26,000	736	(25,264)
Miscellaneous	3,000	3,000	7,540	4,540
Total revenues	\$ 306,000	\$ 306,000	\$ 339,354	\$ 33,354
EXPENDITURES:				
Street system	\$ 353,674	\$ 333,674	\$ 433,116	\$ (99,442)
Excess revenues (expenditures)	(47,674)	(27,674)	(93,762)	(66,088)
OTHER FINANCING SOURCES (USES):				
Transfer in	57,674	57,674	85,181	27,507
Transfer out	(10,000)	(30,000)	-	30,000
Total other financing sources (uses)	47,674	27,674	85,181	57,507
Net changes in fund balances	-	-	(8,581)	(8,581)
Fund balances - beginning	8,581	8,581	8,581	-
Fund balances - ending	\$ 8,581	\$ 8,581	\$ -	\$ 40,345

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REVOLVING LOAN
For the Year Ended March 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget-</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note A)</u>	<u>Positive (Negative)</u>
REVENUES:				
Loan repayment	\$ 46,296	\$ 46,296	\$ 31,597	\$ (14,699)
Interest income	12,399	12,399	12,484	85
Total revenues	<u>\$ 58,695</u>	<u>\$ 58,695</u>	<u>\$ 44,081</u>	<u>\$ (14,614)</u>
EXPENDITURES:				
Community development	\$ 1,574	\$ 1,574	\$ 1,021	\$ 553
Excess revenues (expenditures)	57,121	57,121	43,060	(14,061)
Fund balances - beginning	<u>142,098</u>	<u>142,098</u>	<u>142,098</u>	<u>-</u>
Fund balances - ending	<u><u>\$ 199,219</u></u>	<u><u>\$ 199,219</u></u>	<u><u>\$ 185,158</u></u>	<u><u>\$ (14,061)</u></u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2004

	Special Revenue Funds			Debt Service Funds			Permanent Fund	Total
	Local Street	State Trunkline	Downtown Development Authority	Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	Nonmajor Governmental Funds	
ASSETS								
Cash and equivalents:								
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 218,762	\$	218,762
Unrestricted	(2,237)	(757)	154,002	811	-	-		151,819
Receivables:								
Special assessments	-	-	-	-	-	-		-
Interest	-	-	271	-	-	426		697
Miscellaneous	693	-	193	-	-	-		886
Due from other funds	621	-	-	-	-	-		621
Due from other governmental units	24,572	757	80,661	-	-	-		105,990
Total assets	\$ 23,649	\$ -	\$ 235,127	\$ 811	\$ -	\$ 219,188	\$	478,775
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 459	\$ -	\$ 77	\$ -	\$ -	\$ -	\$	536
Accrued payroll	3,301	-	918	-	-	-		4,219
Due to other funds	19,889	-	-	-	-	-		19,889
Due to other governmental units	-	-	32,125	-	-	-		32,125
Deferred revenue	-	-	15,823	-	-	-		15,823
Total liabilities	23,649	-	48,943	-	-	-		72,592
Fund balances:								
Reserved for:								
Cemetery perpetual care	-	-	-	-	-	219,188		219,188
Unreserved	-	-	186,184	811	-	-		186,995
Total fund balances	-	-	186,184	811	-	219,188		406,183
Total liabilities and fund balances	\$ 23,649	\$ -	\$ 235,127	\$ 811	\$ -	\$ 219,188	\$	478,775

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended March 31, 2004

	Special Revenue Funds			Debt Service Funds			Permanent Fund		Total
	Local Street	State Trunkline	Downtown Development Authority	Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	Nonmajor Governmental Funds		
REVENUES:									
State sources	\$ 126,184	\$ 17,919	\$ -	\$ -	\$ -	\$ -		\$	144,103
Taxes	-	-	338,778	-	-	-			338,778
Lease income	-	-	-	99,850	-	-			99,850
Interest income	323	-	2,584	-	-	4,233			7,140
Miscellaneous	1,076	-	698	-	-	1,377			3,151
Total revenues	\$ 127,583	\$ 17,919	\$ 342,060	\$ 99,850	\$ -	\$ 5,610		\$	593,022
EXPENDITURES:									
Cemetery	\$ -	\$ -	\$ -	\$ -	\$ -	255		\$	255
Street system	210,475	12,984	-	-	-	-			223,459
Community development	-	-	137,674	-	-	-			137,674
Debt service:									
Principal	-	-	-	50,000	75,000	-			125,000
Interest and other charges	-	-	-	49,850	41,618	-			91,468
Total expenditures	210,475	12,984	137,674	99,850	116,618	255			577,856
Excess revenues (expenditures)	(82,892)	4,935	204,386	-	(116,618)	5,355			15,166
OTHER FINANCING SOURCES (USES):									
Transfers in	82,892	-	-	-	116,618	-			199,510
Transfers out	-	(4,935)	(156,618)	-	-	(4,096)			(165,649)
Total other financing sources (uses)	82,892	(4,935)	(156,618)	-	116,618	(4,096)			33,861
Net changes in fund balances	-	-	47,768	-	-	1,259			49,027
Fund balances - beginning	-	-	138,416	811	-	217,929			357,156
Fund balances - ending	\$ -	\$ -	\$ 186,184	\$ 811	\$ -	\$ 219,188		\$	406,183

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2004

ALL UTILITIES:

Population served	5,037
Average number of meters in service	5,622

ELECTRIC UTILITY FUND:

K.W.H. purchased	35,624,905
K.W.H. sold	<u>33,873,404</u>
	<u>1,751,501</u>
K.W.H. lost (4.92%)	<u><u>1,751,501</u></u>
Revenue from sales	<u>\$ 2,374,577</u>
Average number of meters	2,882
Estimated street light K.W.H. used	259,000

WATER UTILITY FUND:

Gallons pumped into plant	166,659,780
Gallons used in plant and for system maintenance	<u>5,190,665</u>
Gallons pumped to mains	161,469,115
Gallons sold	<u>138,455,645</u>
	<u>23,013,470</u>
Gallons lost (14.25%)	<u><u>23,013,470</u></u>
Revenue from sales	<u>\$ 480,515</u>
Average number of meters in service	2,740

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 484,659</u>
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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members
of the City Commission
City of Gladstone
Gladstone, MI 49837

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan, as of and for the year ended March 31, 2004, which collectively comprise the City of Gladstone, Michigan's basic financial statements and have issued our report thereon dated June 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance – As part of obtaining reasonable assurance about whether the City of Gladstone, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Gladstone, Michigan, in a separate letter dated June 10, 2004.

Internal Control Over Financial Reporting – In planning and performing our audit, we considered the City of Gladstone, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by

Honorable Mayor and Members
of the City Commission
City of Gladstone
Page 2

employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Gladstone, Michigan, in a separate letter dated June 10, 2004.

This report is intended solely for the information of management, others within the organization, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

June 10, 2004

CITY OF GLADSTONE, MICHIGAN

REPORT TO MANAGEMENT

MARCH 31, 2004

RECEIVED
DEPT. OF TREASURY

AUG 11 2004

LOCAL AUDIT & FINANCE DIV.



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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REPORT TO MANAGEMENT

To the Honorable Mayor and Members
of the City Council
City of Gladstone

Audit Committee Communications

We have audited the financial statements of the City of Gladstone, Michigan for the year ended March 31, 2004, and have issued our reports thereon dated June 10, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated May 17, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the City of Gladstone, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Gladstone's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

To the Honorable Mayor and Members
of the City Council
City of Gladstone
Page 2

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Gladstone, Michigan are described in Note A of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the City of Gladstone, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: the useful lives of fixed assets.

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Gladstone's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, none of the adjustments we proposed, whether recorded or unrecorded by the City of Gladstone, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Gladstone's financial reporting process.

To the Honorable Mayor and Members
of the City Council
City of Gladstone
Page 3

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Gladstone's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of the City of Gladstone, Michigan for the year ended March 31, 2004, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

To the Honorable Mayor and Members
of the City Council
City of Gladstone
Page 4

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated June 10, 2004, on the financial statements of the City of Gladstone, Michigan.

We have already discussed many of these comments and recommendations with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the used of City Council and management of the City of Gladstone and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

June 10, 2004

CITY OF GLADSTONE, MICHIGAN
COMMENTS AND RECOMMENDATIONS

March 31, 2004

UNRESOLVED PRIOR YEAR COMMENTS AND RECOMMENDATIONS

Cash Account

Comment:

During our testing of the cash account balances we noted that a cash account, which is being maintained for CDBG monies, was not recorded in the general ledger.

Recommendation:

We recommend that the City record this cash account in the general ledger in order to provide accountability and control of this cash.

Management Response:

We have created fund 246 and recorded this activity in our general ledger. Howard Haulotte, housing inspector will monitor this fund.

Light Deposits

Comment:

During our testing of the light deposit payable, we noted that the general ledger reflects \$5,887 more in light deposits than the utility billing system.

Recommendation:

We recommend that the general ledger and the utility billing system be reconciled on a monthly basis so light deposits payable is accurately reflected in both systems.

Management Response:

As of October 2003, the City has purchased BS&A software. Utility billing now interfaces with the general ledger. No more manual entries will be required between the general ledger and the utility billing system.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2004

Utility Receivables

Comment:

During our testing of the accounts receivable, we noted that the utility billing system shows net \$5,416 less in utility accounts receivable than the general ledger.

Recommendation:

We recommend that the general ledger and utility billing system be reconciled on a monthly basis to assure that both systems are properly accounting for the utility accounts receivable.

Management Response:

This response is the same as the Light Deposit comment and recommendation above.

Electric Fund Inventory

Comment:

During testing of the Electric Fund's inventory account, we noted the following issues:

- (1) Numerous items were adjusted at year-end in order to reconcile the inventory listing with the physical count done at this time.
- (2) Adjustments were also made at year-end to account for items that were not properly checked-out of inventory at the time they were used, either by City personnel or contractors assisting the City on certain projects.

The detailed inventory listing does not reconcile with the general ledger.

CITY OF GLADSTONE, MICHIGAN
COMMENTS AND RECOMMENDATIONS

March 31, 2004

Electric Fund Inventory (continued)

Recommendation:

The appropriate policies and procedures must be established and implemented in order to strengthen the City's control over its inventory.

We recommend the City perform quarterly, instead of annual, inventory counts so that any variances between the listing and the count can be investigated and monitored throughout the course of the year.

Inventory items should never be taken out of the City's custody without being properly checked-out. This policy should be strongly enforced and made clear to all individuals whom it concerns.

Management Response:

1. According to the inventory department, there were some inventory corrections; however, the counts that were reconciled were generally in the range of one to four items. The items were lower value items. Wire counts were better than last year. Counting wire lengths is very difficult because one needs to count the number of wraps on a spool; the wraps are overlapped and difficult to count due to multiple layers. The circumference of each layer decreases as they approach the center of the reel. The circumference formula must be used to calculate the length. The most accurate way to determine the amount of wire is to weigh the reel and convert pounds to feet. A scale used for weighing cable reels must be capable of weighing thousands of pounds and these scales are very expensive. The amount of wiring being used should decrease significantly as our voltage conversion project nears completion. Wire measurement should become less of a problem since we will be using much less wire. This may change if there is major new development in the City. We don't recommend buying an expensive scale at this time.

Linemen have been instructed to measure the amount of wire that they use. Electric department personnel check on them quite often to make sure that they aren't forgetting to account for the wire used. On every wire job, there is a certain amount of cutoff waste simply because the wire has to be installed longer than actually needed. The wire is cut to fit once the hardware is installed. Also, it is common to have a small amount of wire left over on a

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2004

Electric Fund Inventory (continued)

Management Response (continued):

reel. This wire is essentially useless because it is not long enough to accommodate most jobs.

2. If items are not being checked out at the time they were being used, this is a discipline problem. We check with the linemen to see if they are checking everything out. Usually, they do a good job, however, occasionally we find items that are missed. When contractors are working for us, someone from the City is supposed to be with them to account for parts.

There is only one way to have tight control over inventory. A person would have to be designated to check items out. All inventory items would have to be secured so that only one person would have access. This is not feasible due to the economics of such a scenario.

Contractors have been instructed to make a detailed list of all materials acquired. Sometimes, when nobody is in the shop, contractors will get materials that they need to complete a job. Ideally, we shouldn't let them take materials without City personnel present, but to have contractors sitting idle waiting for parts is very expensive. One crew costs approximately \$250 per hour. Sometimes we have two or three crews working. We could be talking \$750 per hour. Economically, it makes sense to have the contractors pick up miscellaneous materials on the "honor system". Their labor outweighs occasional inventory inaccuracies. It should be noted that it is rare for a contractor to acquire parts with no City employees present. Once again, as the long-term voltage conversion process winds down, it is expected that contractors will be used to a much lesser degree, thereby helping to eliminate inventory inaccuracies due to contractors.

3. We've had an ongoing problem reconciling the electric department inventory database with the general ledger. Much of the problem lies with the way in which the value of the materials is calculated, that is, actual cost vs. average cost, and LIFO, FIFO, etc. The present inventory database used by the electric department has a lot of limitations. We've been searching for canned software that will meet our particular needs. We are not having a lot of luck. Proprietary software may be necessary. As we all know, this can be quite

CITY OF GLADSTONE, MICHIGAN
COMMENTS AND RECOMMENDATIONS

March 31, 2004

Electric Fund Inventory (continued)

Management Response (continued):

expensive. What is really needed is a relational database used by both city hall and the electric department. We have made inquiries to BS&A to see if an inventory package can or will be incorporated into the accounting software now used by the City. BS&A plans to start development of an inventory package in six months. We guess that it would be at least a year before this product (even in beta form) will be available to us. If and when we acquire the new software, it will still take a significant amount of time to transfer information from our existing database into the new BS&A database. In the meantime, we have been trying to use actual costs whenever possible. The difference between the electric department inventory totals and city hall inventory totals has improved since last year.

Proposed Action Items:

- Hold another informational meeting with electric department personnel regarding the importance of material accountability.
- Provide closer oversight of contractor material acquisition.
- Perform more frequent inventory counts. Inventory counts will be done every three months, or four times per year. Counts of the commonly used, and high-dollar items will be done three times per year. A comprehensive count will be done at the end of the fiscal year. This should help to catch any abnormalities in a more timely manner.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2004

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Budget Non-Compliance

Comment:

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

Major Street	\$69,442
Local Street	52,975
State Trunkline	3,869

- (2) Actual expenditures exceeded budget amounts for certain expenditure categories within the following funds:

General Fund

Recommendation:

We recommend that budgets be amended as necessary to prevent expenditures from exceeding appropriations.

CITY OF GLADSTONE, MICHIGAN
COMMENTS AND RECOMMENDATIONS

March 31, 2004

Budget Non-Compliance (continued)

Management Response:

We have discussed many times in past meeting's with external auditor's whether amending the current year budget on the last day of the fiscal year was in effect "fooling ourselves and our customers". However, it should be noted that both Major and Local Street Funds need to be watched more closely in future years. We would also note that management personnel/department supervisor's meet very often throughout the fiscal year to monitor budget compliance and our overall organizational philosophy is to get our operating department's to understand their primary role as the first place where resources are allocated relative to the budgets they propose. The City Manager has instituted stronger measures to ensure that budgets are amended where appropriate and we live within our budgetary authority.

Expenditure Approval

Comment:

During our testing we noted an invoice over \$500 was paid without Council approval.

Recommendation:

All invoices that are required to be approved by City Council should be presented to the Council for approval.

Management Response:

The City will make a diligent effort to not let this occur in the future.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2004

Receipt System

Comment:

We noted receipts for monies received over the counter or through the mail are not always printed. We also noted that when payments are received they are not immediately entered into the receipt system.

Recommendation:

In order to improve internal controls over cash receipting, all monies that are received should be receipted in immediately and a receipt printed and issued, particularly utility receipts which currently are not entered into the system when they are received over the counter. Currently individuals are given a portion of their utility stub back, which is stamped paid. The funds should be receipted in and a receipt issued as proof of payment.

Management Response:

The new BS&A software cash receipting system lists all invoices receipted for. Physically printing a receipt is not necessary for tracking purposes. When the drawer is balanced daily, a detailed receipt register is printed and kept in a monthly folder for future reference.

2004 Water and Waste Water Bond Cash Accounts

Comment:

As part of the issuance of the 2004 water and waste water bonds, the bond ordinances require the establishment of a "bond and interest redemption account" and a "replacement and improvement account" for each bond issue. As of March 31, 2004, the City has not established these accounts.

Recommendation:

The City should establish the required accounts in order to comply with the bond requirements.

CITY OF GLADSTONE, MICHIGAN
COMMENTS AND RECOMMENDATIONS

March 31, 2004

2004 Water and Waste Water Bond Cash Accounts (continued)

Management Response:

These accounts will be opened immediately.

Notes Receivable

Comment:

We noted in the Revolving Loan Fund and the Economic Development Fund that several of the notes are delinquent.

Recommendation:

The City should review these notes periodically and consider assessing additional interest charges.

Management Response:

These loans are reviewed every month by the EDC board of directors and action is taken as they direct.

Flex Benefit Account

Comment:

Currently the City has a third party administrator maintain the activity for the Section 125 plan. A checking account is maintained in the City's name in order to facilitate benefit payments and is not recorded in the City's general ledger or reconciled.

Recommendation:

The City should consider recording this activity in the general ledger of the City through a trust and agency fund and reconcile this bank account to the activity reported by the third party administrator.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2004

Flex Benefit Account (continued)

Management Response:

The bank statement comes to the City and is reviewed every month by the treasurer. This account is 100% employee funded, no City money is deposited in this account. The 3rd party administrator, Metavante monitors all payments to employees.

Utility Billing System

Comment:

The following items were noted relating to the utility billing system:

1. Segregation of duties - Currently the utility billing clerk has the ability to make manual adjustments to the utility billing system, generate the billings from the utility billing system, and collect and receipt a large portion of the cash collections relating to utility accounts.
2. Utility billing adjustments – The utility billing clerk reviews and determines which meters should be re-read and which ones should have adjustments made to them without any documentation or approval for adjustments.
3. Use of passwords – When City personnel enter activity into the receipting module, they will use other City employees' user ID's.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2004

Utility Billing System (continued)

Recommendation:

1. Segregation of duties – The City should review the procedures relating to the utility billing function and segregate duties relating to the utility billing system if possible.
2. Utility billing adjustments – Adjustments to individual utility accounts should be documented, reviewed and approved by an individual independent of the billing function.
3. Use of passwords – Whenever City employee's enter activity into the software program, they should use their own user ID and passwords. Individual passwords should not be shared and should be changed periodically.

Management Response:

1. Segregation of duties – It is not practical to segregate duties at this time based on a limited staff. The city manager and department supervisors review financial statements monthly.
2. Utility billing adjustments – Department supervisors will review monthly and initial all adjustments.
3. City staff will monitor the activity of sharing passwords, and take action as needed.